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Canada-Dominion-Provincial Relations,  
" " Royal Commission on, 1937

ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

REPORT OF HEARINGS

[Ontario]

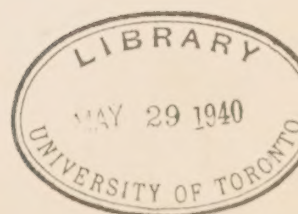
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MAY 4 - 1938 — May 5, 1938

REPORTERS

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TORONTO, ONTARIO, MAY 4, 1938

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OF ONTARIO

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## ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

TORONTO, ONTARIO, MAY 4, 1938

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years, met at the Parliament Buildings, Toronto, Ontario, on Wednesday, May 4, 1938, at 10.30 a.m.

PRESENT:

HON. CHIEF JUSTICE NEWTON W. ROWELL....CHAIRMAN

DR. JOSEPH SIROIS

JOHN W. DAFOE, Esq.

DR. ROBERT ALEXANDER MacKAY

PROFESSOR HENRY FORBES ANGUS

Commissioners

Commission Counsel:

Louis S. St. Laurent, K. C.

Secretariat:

Adjutor Savard, Esq.

R. M. Fowler, Esq.

Wilfrid Eggleston, Esq.

Acting Secretary  
Legal Secretary to  
The Chairman  
Assistant to the  
Secretary

FOR THE GOVERNMENT OF ONTARIO:

Hon. Mitchell F. Hepburn

Hon. G. D. Conant, K.C.

Hon. Eric W.B. Cross, K.C.

Hon. T.B. McQuesten, K.C.

Hon. Paul Leduc, K.C.

Chester Walters, Esq.

Premier, President of the  
Council and Treasurer

Attorney-General

Minister of Municipal Affairs

Minister of Highways

Minister of Mines

Comptroller of Finance and  
Deputy Provincial Treasurer

Professor K. W. Taylor

D. W. Lang, Esq., K.C.

Joseph Rosenfeld, Esq.

E. A. Horton, Esq.

A. J. Chater, Esq.

J. D. Brien, Esq., K.C.

Counsel

Assistant Counsel

Deputy Minister of Welfare

Secretary, The Budget Committee

Senior Solicitor, Succession  
Duty Department





Parliament Buildings,  
Toronto, Ontario,  
May 4th., 1938

## MORNING SESSION

The Commission met at 10.30 A.M.

MR. LANG: Mr. Chairman, I might mention that there was an exhibit not filed yesterday which is referred to on page 57 of book 2 and which I think we ought to file this morning. Page 57, below the figures, reads, "a full comparison of the rates with an accompanying diagram will be filed as an Exhibit."

THE CHAIRMAN: Would you let us see that for a moment, please?

MR. LANG: It is not particularly legible, Mr. Chairman, as it is in small type. Would it be agreeable if we filed it in that form for the moment and we might get it in better shape later on?

THE CHAIRMAN: Yes, that would be agreeable.

MR. LANG: Mr. Walters points out that the document of which that is a copy has already been filed with your commission by Mr. Fraser Elliott as a part of Exhibit No. 128.

THE CHAIRMAN: What Exhibit No. is it?

PROF. TAYLOR: It is a part, I understand, of Exhibit No. 128.

THE CHAIRMAN: This will be Exhibit No. 300.

EXHIBIT NO. 300: Comparative chart of  
Dominion and Ontario  
Income Tax.

MR. LANG: I have given the Commission two other schedules, C. and D., to which reference was made yesterday by Mr. Walters.

MR. WALTERS: Mr. Chairman, you asked yesterday if we would file our computation as to how we arrived at the figures which would result in reversing the allowance, that is if the rates of Dominion and Ontario tax had remained



unchanged but if the Dominion allowed the Ontario tax payable as a deduction from income.

THE CHAIRMAN: Yes, they will be Exhibits 301, and 302. The sheet "C" will be Exhibit No. 301, and the sheet "D" will be Exhibit No. 302.

EXHIBIT NO. 301: Schedule showing percentages of Dominion and Ontario Tax to Income with rates unchanged but with the Dominion allowing as a deduction from income the Ontario Tax payable rather than vice versa.

EXHIBIT NO. 302: Schedule showing income tax which would have been collected, 1936-37, if the rates of the Ontario and Dominion Tax had remained unchanged but if the Dominion allowed the Ontario tax payable as a deduction from income rather than vice versa

THE CHAIRMAN: Mr. Walters, looking at sheet "C", the proposed tax in excess of the present tax, that is the excess amount which each individual would pay on the different income amounts mentioned in the first schedule, is it?

MR. WALTERS: Yes, that is correct.

THE CHAIRMAN: Then you figure out that the total difference to Ontario would be a little over a million dollars and to the Dominion about one million dollars, is that correct?

MR. WALTERS: Yes, \$949,756.

THE CHAIRMAN: That would be the decrease in the Dominion tax and the increase in the Ontario tax would be \$1,104,000.

MR. WALTERS: Yes, Mr. Chairman, provided the rates were the same and the number in each class remained fairly constant.

COMMISSIONER ANGUS: If the rates remained the same, the smaller incomes would pay a little more than at present and the larger incomes a little less on the two taxes





combined, would they not?

MR. WALTERS: I think not, I think it remains the same until you reach a man with an income of \$6,000. He pays sixty-three cents more, a little over a cent a week more. In that class, there are 1,753 persons.

COMMISSIONER ANGUS: This means that the tax would become slightly more progressive than it is now.

MR. WALTERS: Yes, that is correct.

THE CHAIRMAN: Then, Mr. Walters, this Exhibit No. 300 indicates the amount of the Dominion tax and the amount of the Ontario tax, does it not?

MR. WALTERS: Yes, Mr. Chairman, it does.

THE CHAIRMAN: It curves up rather quickly in the higher brackets, does it not?

MR. WALTERS: It does, sir.

MR. LANG: There is one more matter concerning an Exhibit, which I would like to draw to your attention. Yesterday, Mr. Walters made reference to a third mining company and the amount of tax which it would pay. Nothing was filed in that connection, but I have here the figures given by Mr. Walters in his statement. I would like to file these figures concerning "Z" Mining Company, which is mentioned on page 54 of the Brief.

THE CHAIRMAN: That will be Exhibit No. 303.

EXHIBIT NO. 303: Example of taxes paid  
by an Ontario mining  
company.

MR. WALTERS: Yesterday I had just finished the reading --

THE CHAIRMAN: Mr. Walters, just a moment, there is a point which Commissioner Angus would like to draw to your attention.

COMMISSIONER ANGUS: I was going back to the quotation on page 35 of your brief. I said that from memory I thought the Indian economist proceeds beyond the point you



cited yesterday concerning the evils of centralization. I believed he went on to say something about the importance of the transference within a confederation from the richer to the poorer states. I thought that perhaps one might have on record what he does say concerning that principle. The quotation which we had yesterday ended with the words, "What is needed above all is a more solid financial status for states and for local bodies." He continues by saying, "This can be achieved in either of two ways. Either they may be allowed to handle the sources of taxation as well as the proceeds, or, what is better, they may be allowed to enjoy the substance of financial power, subject to federal coordination and supervision by means of the various methods of 'Finanzausgleich' or financial adjustments. These methods have been discussed in part 3."

Then there is a footnote referring to part 3 at page 194-195. At that point Mr. Adarkar says, "Fierce wrangling has, more often than one could recollect, taken place between the governments of the 'federal units.' In Canada, Australia and India as to the 'legitimate' share of each in the booty of federal surpluses or, conversely, as to the proportions of contributions to be made by each, as if it was a private affair between the governments concerned."

Then, if I might summarize, Mr. Adarkar goes on to state that it is an important function of the federal system that the federal government should see that there is actually a transference of wealth or of income, as it were, from the richer to the poorer states within the federation. That is to say, it is a theory of transference not based on supposed damage done by federal policies and not based particularly on fiscal need, but based on the





idea of more or less equalizing conditions within the federation. This is a view which has, perhaps, been mentioned in only one of the Canadian provinces, but I thought that <sup>since</sup> Professor Adarkar had been cited as an authority, that it would be proper to point out that that is the way he faces the general issue before us.

MR. WALTERS: May I say in this connection that in view of the methods of collection, this Government is heartily in accord with the views advanced by Professor Adarkar as to the necessity of the transference of wealth and purchasing power. This government demonstrates that belief in the subsidies which it grants to the municipalities and it recognizes it in the progressive taxes by means of which wealth is transferred from an individual in one state to an economic class in another. This government is in accord with that view which has been expressed. In developing the argument as to types of income to be taxed, the measuring of the ability of the taxpayer to pay and the sort of taxes which should be imposed, I think this government would put forward, perhaps, what was said by the great French economist Professor Say who, I believe, was a great friend of Adam Smith and who said that taxes ought to be such as are favourable to the public morality. By that, I understand that they should be favourable to the ideals of fiscal justice held by the people in a particular organized state and it is in that spirit, that ideal that we present what we call some of the "shortcomings" of the Dominion Income Tax Act. It is not advanced as a criticism of the Act, nor as a criticism of the administration, because the administration of the Dominion Income Tax, particularly with respect to the way in which the Dominion has administered the Ontario Income Tax, is highly satisfactory. Getting back to Professor



Say's canon, "Such taxes as are favourable to the national morality;" This suggests improvements in the Act and puts forward the idea that an Act drawn by the province of Ontario to be administered by the province of Ontario would correct some things which in the opinion of this government are false in the Dominion Act.

COMMISSIONER ANGUS: I did not mean to cite this with reference to the income tax which is before us at the moment, I was merely going back to the discussion which took place at pages 35 and 36 on the general relationship of the Dominion and the provinces.

MR. WALTERS: You have renewed my interest in the book, and I shall read it again. I like the way Professor Adarkar deals with our own Dominion problem.

If I might proceed, Mr. Chairman, I shall proceed with the reading of page 57 in Book 2:

" During the debates on Confederation Honourable A.T. Galt, the Minister of Finance expressed himself as follows:

' If the local revenues become inadequate, it will be necessary for the local governments to have resort to direct taxation; and I do not hesitate to say that one of the wisest provisions in the proposed Constitution, and that which affords the surest guarantee that the people will take a healthy interest in their own affairs, is to be found in the fact that those who are called upon to administer public affairs will feel, when the resort to direct taxation, that a solemn responsibility rests upon them, and that that responsibility will be exacted by the people in the most peremptory manner."

I might say, sir, that I think this quotation appears





elsewhere in the brief because you, Mr. Chairman, referred to it rather regretfully as a prediction which was not wholly fulfilled.

THE CHAIRMAN: Yes, I think it appears earlier in the brief.

MR. WALTERS: Continuing to quote from the brief:

" During the same debate, Honourable George Brown, declared; -

' I am persuaded that by committing all purely local matters to local control, we will secure the peace and permanence of the new Confederation. '

That is a very important statement and expresses the view of the government of Ontario today. A desire for local control does not denote any dissatisfaction with confederation, but rather serves to cement it.

THE CHAIRMAN: The whole problem is, Mr. Walters, establishing what are local matters. It is at this point that differences have entered in any controversy in the past.

MR. WALTERS: There is implied in that statement that persons concerned with local responsibility should have local sovereignty over fiscal matters insofar as the revenue is needed.

" To the General Government will belong all matters of a general character not specially assigned to the local governments. The powers and duties of the local governments have been clearly defined. They are to have the power of imposing direct taxation, and all matters of a local character will be committed to them.

Sir Thomas White, Minister of Finance, in the Budget, address, 1917, said; -

: The Dominion Government under the provision of the British North America Act is empowered to raise



revenue by any mode or form of taxation, whether direct or indirect. On the contrary, the provinces, and by consequence the municipalities which derive their taxation power from the Provinces, are confined in the raising of revenues to the measures of direct taxation. For this reason, since the outbreak of the war, I have hesitated to bring down a measure of Federal income taxation, and I have not regarded it as expedient, except in case of manifest public necessity, such as I believe exists at the present time, that the Dominion should invade the field to which the Provinces are solely confined for the raising of their revenue.'

Later, he added, 'we do not know how long this war will last, but a year or two after the war is over, the measure should be deliberately reviewed by the Minister of Finance, and the Government of the Day with the view of judging whether it is suitable to the conditions which then prevail."

Unfortunately, Mr. Chairman, it has never been deliberately or seriously reviewed.

THE CHAIRMAN: I wonder if that is quite a correct statement, Mr. Walters? Do you not think that the government, in considering the fiscal need and budgetary requirements of the government have considered carefully the sources from which the government could get revenue? Has it not been a necessity for the Dominion budgetary position, that the Government should have revenue from these sources, and if not where would the government get its revenue?

MR. WALTERS: I am afraid, Mr. Chairman, that if it ever has received the deliberate consideration of the



Government, the Government must have taken a very one-sided view and wholly disregarded the crying need of the province as well as the province's desire to help the distressed municipalities. These municipalities are being crushed and driven into bankruptcy today by being called upon to assume a burden which the municipality should not be called upon to bear. I am sure if the Dominion Government had considered the matter, it would consider that the income tax is only a part of the fiscal system.

THE CHAIRMAN: Of course, it is only a part, but it does constitute a very important part of the Dominion revenue.

MR. WALTERS: Yes, it does now.

THE CHAIRMAN: I am only trying to look at it from a practical point of view. I appreciate fully the force of the argument which you have made. This argument has been made in other provinces, that the limitation upon the provincial power of taxation to direct taxation --- how helpful it would be to the provinces to have the field of income tax available to the province. I appreciate the force of that argument. On the other hand, the Dominion Government must meet its budgetary requirements. What other source is there available from which it could secure the necessary money to carry on the business of the Government of Canada?

MR. WALTERS: Of course, sir, that is for the Dominion Government to discover.

THE CHAIRMAN: You see, Mr. Walters, we have to look at the whole situation from all angles. There would be no use in our recommending a solution which, on its face, would be impractical. I am raising the point only for the purpose of getting additional light on a difficult and complicated problem.





MR. WALTERS: It is not for the people of Czechoslovakia to tell Herr Hitler where he is to get a further outlet.

THE CHAIRMAN: I trust the relations between Ontario and the Dominion are not similar to the relations between Czechoslovakia and Herr Hitler.

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MR. WALTERS: No, not the same, but the justification that you yourself advanced, Mr. Chairman, is to me analogous to the Aesop's Fable which describes the wolf about to leap upon the lamb, and the wolf says to the lamb "you are disturbing the water that I am about to drink". The lamb says "What is impossible because you are higher up the stream than I am, how can I disturb the water".

As to my statement that in my opinion it has never received the deliberate consideration, I would say this; that I have never seen a statement in any budget address, - and I have read every one since Mr. Fielding's address, - I have never seen the statement that it has received the consideration of the Government, and I am sure that if it had received deliberate consideration that they would have been only too ready to justify themselves by making a public announcement to that effect.

THE CHAIRMAN: Of course you recall, Mr. Walters, I think in 1930 or 1931 the Right Hon. Mr. Bennett made a proposal for a substantial reduction of the income tax in the higher brackets, which would be in accordance, I judge, with the view you have expressed here, that it is too high. But that was withdrawn, apparently the House was against it, and he did not proceed with that policy. I am speaking just from recollection of the situation; you will remember it better than I do.

MR. WALTERS: Well, I will say, in my opinion Mr. Bennett is one of the soundest economists in this country and he was along the right lines. But I think I can clear this up to a certain extent by quoting the Hon. Mr. Robb, with whom, I may say, I discussed this very matter.

"On May 15th, 1917, Sir Thomas White also added, 'the Income Tax is peculiarly within the jurisdiction of the Province, and is a suitable tax for the purposes of the Province and Municipality. In my opinion, the





"federal Government should not resort to an Income Tax until it is indispensably necessary in the national interest that it should do so."

COMMISSIONER DAFOE: There you have the qualifying statement again; the discussion shifts as to whether or not it is indispensably necessary, and you are back at the subject which the Chairman was discussing a moment ago, - is it indispensably necessary.

MR. WALTERS: This is like the woodshed conversation, "this hurts me more than it hurts you".

COMMISSIONER ANGUS: Is there any deliberate consideration of the income tax that does not really mean comparing it to some alternative tax that could give the revenue, - some alternative tax or taxation?

MR. WALTERS: I think that they have it there, it is working well; it comes in just at the time when they most need the money, and the only consideration they have given is, how much more they can get out of it.

COMMISSIONER ANGUS: If you turn to Table No. 3 and you see the details as you have set them out, of the different taxes, and you say also we will strike out the income tax, it means increasing some of the other taxes correspondingly.

MR. WALTERS: Or else retrenching in expenditure; which I am not suggesting they should do, although many people suggest it.

COMMISSIONER ANGUS: Yes, but which is the alternative? Is it to be a retrenchment in expenditure or a little of both, - a little of increasing some other tax?

MR. WALTERS: Well, of course it is more, I think, in the interests of the taxpayers that budgets should be balanced by retrenchment rather than pushing for more revenue.

COMMISSIONER ANGUS: Suppose you balanced by retrenchment and struck out the income tax, - and that would mean striking out very nearly a quarter of the revenue in recent years, -



would not that interfere with this process of transference that you praise? Is not the income tax the transfer tax?

MR. WALTERS: The income tax is a compensatory measure, and in a sense compensates the people in the lower economic scale for the inevitable burden which they bear because of the incidence of consumption taxes.

COMMISSIONER ANGUS: And that could be carried out as well by provincial tax as by a Dominion tax?

MR. WALTERS: Within the jurisdiction of the province, yes, but from province to province.

COMMISSIONER ANGUS: As between provinces. What could take the place of the income tax as a means of transference?

MR. WALTERS: There are many transferences besides this method, but I say that probably the demands of fiscal justice would be fully met by allowing the corporation tax to be still administered by Ottawa, to which this government makes no objection.

COMMISSIONER ANGUS: You are speaking only of the personal income tax?

MR. WALTERS: Yes, and that would effect a transference of purchasing power between the different provinces.

COMMISSIONER MacKAY: What are the proportions of the personal and the corporation income tax, Mr. Walters? I have forgotten it,

MR. WALTERS: The proportion in the collections?

COMMISSIONER MacKAY: Yes.

MR. WALTERS: I believe it is about 60 and 40. There is a breakdown here. Of course, it varies from year to year, because they have been pushing up the corporation tax. The year in which the Chairman spoke of it, - in 1931 I believe the Corporation Tax was 8%. It is now 15% for a straight return and a higher rate if consolidated. I will ask Prof. Taylor to answer Commissioner MacKay's question.

THE CHAIRMAN: What are the figures of the corporation



tax?

PROF. TAYLOR: In the fiscal year 1936, which is not the same as last year which we had in the other total, - the fiscal year 1936, personal income tax yielded \$33,000,000, corporation income tax yielded \$43,000,000, with a special 5% tax on interest and dividends paid to non-residents, \$7,000,000. Fiscal year March 31st, 1936; that is the Federal Government's collection only.

MR. WALTERS: The next statement that I am about to make I cannot recall where I read it, but I know this view was expressed by the late Mr. Robb on different occasions. I am not sure but I believe in one of his budget addresses he said that the time may come, - I will read this but I want to make it clear that I am speaking now from memory and not by the book.

THE CHAIRMAN: If you can find any reference to an address we would be glad if you would give it to us later.

MR. WALTERS: Yes,

"Honourable J. A. Robb, the Minister of Finance, in more than one address, made half a promise that the Dominion would get out of the field of income as far as the tax on persons was concerned.

Honourable John Hart, Minister of Finance of British Columbia, in his Budget Speech, 1935, said; -

'From Confederation onwards, however, a tacit understanding existed to the effect that direct taxation was the sole prerogative of Local Government. It is not surprising, therefore, that the Provinces viewed with alarm the Dominion's invasion of this field in 1918 by the imposition of an income tax.

It is felt that the Dominion should withdraw from the field of direct taxation. Since its inception in 1919 the Federal income tax has yielded to the Dominion \$59,298,491.00; its advent in the province





has created a dual tax which has the effect of (a) penalizing enterprise; (b) it prevents accumulation of industrial capital for the development of business; (c) it penalizes conservative business practice; (d) it discourages new ventures and thereby strengthens old ventures in their monopolies; (e) it prevents fluidity of capital.'

Honourable T.W. McGarry, the wartime Provincial Treasurer of the Province of Ontario, in his Budget Speech delivered on the 7th of March 1916, said; -

'At Confederation the Provinces were given the right to impose direct taxation, but were denied the right to impose indirect taxation. While it is not definitely laid down, there has been an understanding that the Dominion Government would adopt indirect taxation, and we, direct taxation. But during the past year there has been a direct tax placed upon the profits of all business. Direct taxation has been resorted to by the Dominion Government. I do not find fault with that tax at all. I commend it, and I say on behalf of the Government of this Province and the people of the Province that with any imposition which the Minister of Finance at Ottawa finds it necessary to make in order to pursue this war successfully we are entirely in accord. But, Sir, when the war is over there will come a time in the history of the Province, as there will come a time in the history of the Dominion, when we must regulate our financial dealings for the future, and among these financial dealings nothing will be more important than the taxation of the people. We desire that this taxation shall be imposed as fairly as possible. I therefore say that when that time arrives it will be the duty of this Government to see to it that we are given the right to impose within



'to see to it that we are given the right to impose within the limits created by the British North America Act such taxation as we may think necessary.'

At various Dominion-Provincial Conferences, the Provincial Prime Ministers were practically unanimous in expressing the view that the Dominion has invaded the Provincial field in placing a tax on persons. The tax on corporations was more of an indirect nature, and consequently did not receive such criticism."

THE CHAIRMAN: Mr. Walters, in one of the briefs submitted to us, I am not sure which, there was a resolution from the interprovincial Conference of 1918 set forth, the substance of the resolution being that while the provinces should not ask the Dominion to withdraw from the income tax field having regard to the conditions then existing, they expressed the hope that the tax would be divided as between the Dominion and the Provinces, and the Provincial share distributed per capita according to the population of the different provinces. I think it was the 1918 conference, and I think that appeared in one of the briefs filed in British Columbia. Have there been any other resolutions? It would be interesting to have all the minutes here; if we could be furnished with a list of any resolutions passed at the interprovincial Conferences in reference to the income tax matter. You say it has been discussed at these different conferences?

MR. WALTERS: Yes, Mr. Chairman. I shall make a search and if there are any such resolutions available back to the time of the imposition of the Income War Tax Act, I will produce them. That method would answer your question, Prof. Angus?

COMMISSIONER ANGUS: It would answer my question as to your meaning. I do not mean I was necessarily advocating that method of transference.

MR. WALTERS: It would, in a sense, meet what we both





agreed.

COMMISSIONER ANGUS: Yes.

MR. WALTERS: To continue reading from the brief:

"At the Dominion-Provincial Conference at Ottawa in December 1935, the Prime Minister of Ontario took the stand that the levying of a tax on incomes of persons and personal corporations resident in the Province of Ontario was an invasion of the Provincial field of taxation. This stand was supported by the treasurers from every other Province of the Dominion.

The Government of Ontario submits that, inasmuch as the Provinces and their associates, the municipalities, bear the larger share of the ever-increasing burden of Mothers' Allowances, direct relief, hospitalization, education and other social services' costs, they have the moral and equitable right to priority in income tax and all other direct taxes."

In 1918, Mr. Chairman, the Hon. T.W. McGarry, then Provincial Treasurer of Ontario, did not foresee the great emergency with which this province and other provinces would have to deal, that was brought about by the great depression which began in 1930 and extended and has not yet abated.

COMMISSIONER ANGUS: When we come to priority are you distinguishing the personal income tax from the corporation income tax?

MR. WALTERS: It is for priority only with respect to tax on persons and on personal corporations.

COMMISSIONER ANGUS: And the other does not come under direct taxes?

MR. WALTERS: No, we are making no complaint about the tax on corporations except the one expressed yesterday, in the matter of taxing mines.

"If the Dominion Government will look at this matter from a broad standpoint, they will accede to



"this request and will at least acknowledge the Provinces' right of priority in respect to direct taxation. If the Dominion authorities will do this, the Province of Ontario will be willing to look after unemployment relief and will ask no assistance from the Dominion Government, but will make an equitable arrangement with the municipalities, which will help to lift the heavy load of taxation that now bears upon real estate."

THE CHAIRMAN: Mr. Walters, just on that point; one can see, if that were done, how Ontario could handle its financial situation, but there are some of the provinces which cannot handle their unemployment relief even if they had full priority on income tax. That is based on financial statements which have been submitted to us, - particularly the Western Provinces.

MR. WALTERS: Well, Mr. Chairman, I have not made an exhaustive study of the budgetary position and the taxpaying ability of the three Prairie Provinces, but in a general way I have understood from conversations and items that I have read in the Press, and I think parts of it from the Bank of Canada Report, that these Provinces are able to meet their debts and carry the load.

THE CHAIRMAN: Well, those are not the Bank of Canada Reports of March, 1937, Mr. Walters, as I read them. My recollection is that the Bank reported that the Provinces could not, and recommended an immediate grant of a certain amount to tide them over, pending the investigation by a Royal Commission which would examine Dominion-Provincial Financial relations.

MR. WALTERS: I think they did say that the Provinces could pay their debts, Mr. Chairman.

THE CHAIRMAN: I do not recall the details.

MR. WALTERS: I think I saw that statement with respect to



Alberta, that they could meet the interest on their debentures.

THE CHAIRMAN: Yes, they said that they could meet the interest on their debentures, but they would have to borrow for relief. That is my recollection.

MR. WALTERS: I do not pretend to any intimate knowledge of their budgetary position, but if they are to carry on, Mr. Chairman, as Provinces, they should be able to find ways and means to look after their local affairs.

THE CHAIRMAN: You see, Mr. Walters, if there is any re-arrangement in financial relations between the Dominion and the Provinces one would think there must be some uniform principle applied, - that the same general principle should govern financial relations between the Dominion and all the Provinces, do you not think?

MR. WALTERS: Mr. Chairman, the same relations do not apply in the matter of subsidies. I think we get about 80¢ and some of the other Provinces get several dollars per capita, so that the arrangement there is not uniform. Financial relief could be given by increased subsidies. This Government makes no complaint, and does not consider that it is any of its business what the Dominion Government does with its revenues, which are properly collected. That is their business and they are not responsible to this Government but responsible to the electors of Canada; and not a word of complaint has been said in this brief, nor will be said, in regard to the inequality that characterizes the manner in which subsidies are distributed. There is no complaint about that at all. It is quite within the power of the Dominion Government to increase its subsidies to the Western Provinces.

COMMISSIONER DAFOE: By that you mean interim subsidies as well as unconditional permanent subsidies?

MR. WALTERS: Exactly, Dr. Dafoe.

COMMISSIONER ANGUS: So that while Ontario would look





after its unemployment relief it does not mean on condition that the other Provinces will do the same?

MR. WALTERS: No. Old Mother Ontario wants this country to go on and prosper, and does not object to any help being given to the other Provinces.

COMMISSIONER MacKAY: Your proposal then, or the inference to be drawn from your remarks, Mr. Walters, would be this; That the relations between each Province and the Dominion should be on a separate basis?

MR. WALTERS: Pardon me, I say at the present time, Prof. MacKay, they are on a different basis; there is no uniformity, and I make no objection to the fact that there is no uniformity.

COMMISSIONER MacKAY: In 1867 we started off in an attempt at uniformity. We started out by attempting to run the country with at least some principles of equality as between the provinces in the matter of finance. We probably paid more "lip service" to those principles than we followed them exactly. Now, the inference of your remarks would be this: That we should go on, that we should be prepared to establish the relations between the Dominion and each particular province in an entirely different way, - no uniformity whatsoever. I am not condemning that, I am just asking you do you think that is a sound principle on which a Federal system can be established?

MR. WALTERS: Well, Prof. MacKay, I do not think it is any part of my duty to deal with that situation, but this part of my presentation arose out of the statement by the Chairman that it is all very well for Ontario to be given what it claims, - that is the prior right to collect income tax, - but the Chairman says that would not help some of the Western Provinces. Is that correct, Mr. Chairman?

THE CHAIRMAN: It would not help the West and it would not help the East bear the load of relief.



MR. WALTERS: Then the Chairman mentioned the necessity of uniformity and I replied that there is no uniformity at the present time in respect to subsidies and I said we make no complaint. Now, further than that, I do not think that I should attempt to outline a new scheme of Confederation with respect to transference by way of subsidies from the central cash box to the Provinces.

COMMISSIONER MacKAY: Unfortunately the Commission has to reach some general conclusions on this, and we thought probably with your wide experience in the handling of finance that you could give us some light on the subject.

MR. WALTERS: I am afraid you give me too much credit.

COMMISSIONER MacKAY: There is one point we have arrived at. Ontario has no objection if the other Provinces are treated differently?

MR. WALTERS: No, Ontario has no objection. I may refer to your statement, that at the outset of Confederation it was intended that they should all be put on an even basis. It was to this extent, that each Province was assigned Sovereign power over its own assets and the power of taxing its own people, and they said "here, as far as creating free trade within the provinces is concerned, we will put you all on a common basis, but if the need of one local Government is greater than another you have it within your own power, by local taxation, - and each time they said by direct tax, - but beware how you exercise it." They recognized that this country would develop and while at that time there was not present the great inequality of wealth that developed later and has since come upon us, they recognized this fact, that each local Government would have to look after its own affairs.

COMMISSIONER MacKAY: But as a matter of fact, no Provincial Government in Canada has really stood on its own feet financially since Confederation. Our whole system is





based on subsidies; it began with that. It is true that subsidies do not play such an important part now, but the principle of subsidies runs right through the whole of our history.

MR. WALTERS: Yes. In the early stages it was, I think, 57% of the total revenue in this province, but even then we were not on a uniform basis per capita. May I proceed, Mr. Chairman.

THE CHAIRMAN: Yes, Thank you, Mr. Walters.

MR. WALTERS: I will read from page 60:

"It has already been shown that the financial responsibilities of the Province have increased much more rapidly than those of the Dominion, and there is every reason to suppose that this trend will continue. In the long run the Dominion's financial needs are not likely to increase substantially.

With proper management Dominion debt charges can be stabilized and should in the near future begin to decrease. The cost of war pensions will start to fall rapidly during the next decade. Railway deficits may not be entirely eliminated in the immediate future, but they will almost certainly be lessened."

Surely some day they will settle this railway problem, and not crush us all.

THE CHAIRMAN: Can you tell us, Mr. Walters, how it should be settled.

MR. WALTERS: Well, Mr. Chairman, if I could settle it I would not be here long.

THE CHAIRMAN: Thank you. I agree.

MR. WALTERS: Then after I had finished here Mr. Roosevelt would send for me.

"Even if the Dominion does assume certain limited responsibilities in the field of social insurance, these will doubtless be on a contributory basis, and with



"proper management, should not be a heavy financial drain."

COMMISSIONER DAFOE: Mr. Walters, that is a very cheerful prospect for the future of Dominion finance, but unfortunately it is the view which prevails in Toronto and not in Ottawa. The Dominion Government, looking forward probably has little expectation of a diminution of their burdens. We have to bear in mind that Canada is a nation, in a world of nations, at perhaps the most dangerous time in the history of man, and there are external possibilities which one cannot foresee and which are liable to make an increasingly heavy demand upon the resources of Canada. I am inclined to think of the two views, - it seems to me that would be a consideration which the Dominion Government would be bound to bear in mind in giving their consent to a re-allocation of sources of revenue, which might permanently limit those necessarily limitable powers which the Dominion has to have in view of the possibilities of emergencies arising.

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MR.WALTERS: Well, sir, I am glad to say that I am fully aware of the critical timethrough which we are passing. They are not as dark as some of the days that the British Empire has come through before and I am satisfied that the genius of the British race and our democratic institutions, and the wonderful resources we have in this country, that we have to look forward to a better time than we have now.

COMMISSIONER DAFOE: Yes, but they cost money.

MR.WALTERS: I am satisfied that we are just going through the tunnel and we are going to see daylight. And I am satisfied the day will come soon when the Dominion will balance its judgets and reduce its debt, as it did for a number of years, it reduced debt and reduced taxation, and that day will come again.

THE CHAIRMAN: We are all hoping for it.

COMMISSIONER DAFOE: We will all pull for that but the alternative possibilities cannot be absent from the minds of the authorities at Ottawa.

MR.WALTERS: Well, if this country cannot swim out no country in the world can.

COMMISSIONER DAFOE: That may be so.

MR.WALTERS: I predict that my grandchildren will be living in a better time than I am living in. I am more hopeful for the Dominion than I am for the province and the municipalities under the present order of things.

"The trend of Provincial obligations has already been discussed. The costs of education, health, welfare, housing, rural standards of life, and the relief of municipal tax rates, all present financial problems that the Provinces must face within the limits of their budgetary capacities.





We have already discussed differences in economic and political standards in the different regions of Canada. An important part of the political differences between regions, a significant variation in the political mores, is the different conceptions of means of achieving the varying standards of social justice. Those differences in the regional conceptions of public morality are, we submit, of fundamental importance. It is of the essence of self-government that a people shall be permitted to establish and enforce its own considered standards of fiscal justice. Different regions of Canada have varying conceptions of the usefulness of particular types of taxes in achieving their own standards of public morality. In part these differences of opinion with regard to public morality arise out of different economic conditions, but also, in part, they arise out of varying conceptions of the ends of the State, the objectives of government, and the foundation of political ethics."

COMMISSIONER ANGUS: Is not that subject to their being included in a free-trade area that would make it very awkward if one of them, shall we say, established higher standards than another, and was exposed to seeing industries move to the province with the lower standard?

MR. WALTERS: Yes, I quite agree if we created a paradise in the province of Ontario, as some people think at present it is, all the people in Canada would move to Ontario.

COMMISSIONER ANGUS: I see that possibility, but if you were creating a high-wage standard it might make all the industries move elsewhere. I mean the other possibility is there.



MR.WALTERS: I disagree with you. I believe that high, sound wages, within a proper scale contribute to better conditions and better manufacturing conditions, and that low wages contribute to bad conditions, to discontent and to all sorts of obstacles that will drive people away, industrialists away. The first thing that an industrialist wants - the first thing he must have of course is markets, but the next thing he wants to know is if he can get skilled labour and if they are contented people. Now, he cannot have that unless he pays them a decent share of the profits he earns.

COMMISSIONER ANGUS: Without discussing that in detail, I suppose our tariff is based on exactly the opposite assumption, that the competition from low wage countries is often supposed to be very detrimental to the wage standards of a country that, on your statements, would be the better place of the two.

MR.WALTERS: I don't think our tariff is based on that altogether. That is just one of the component parts or factors.

COMMISSIONER ANGUS: Yes, but insofar as it is applicable it is the opposite view to the one you have expressed. I mean, people do speak about Japanese competition, the danger of it,

MR.WALTERS: Yes; I think Henry Ford pays the highest wages in the automobile industry and he has reaped the greatest reward.

COMMISSIONER ANGUS: I am not contesting the value of high wages and the quality of the labour, and the fact that high paid labour is often cheap labour. That is true. But you can find industrialists that do take advantage of sweated labour or bad conditions and there has been for instance, in the United States, a good deal of discussion of the possibility of industries being





moved from one state to another if any state puts its standards too high. At any rate, that is an argument that is continually used against putting the standards too high by the very people, the employers themselves, who, on your contention, would have the greatest interest in improving the standards.

MR.WALTERS: I don't want to get into an economic argument as to how much of the purchasing power the employer should have to purchase the goods that he himself manufactures, but I submit this, that good wages, fair wages, attract industrialists rather than repel them.

COMMISSIONER ANGUS: But I merely wanted to raise the question in relation to the paragraph you have just read. If you have two provinces that cannot put up tariff barriers against each other, are you not likely to have a situation in which one, pursuing its standard of social justice, considers the other has become a menace to it, complains in certain cases that competition has resulted from the fact that the state next door to it does not keep up the same standards? Or do you think that is a negligible thing?

MR.WALTERS: No, it is an argument I hear frequently, but I come back to your original statement, that I do not believe that by creating fair wage standards you drive out industries to another province where the standards are not fair, because you get the best workmen and produce the best product and get the market.

COMMISSIONER DAFOE: There is a sentence here which says : "It is of the essence of self-government that a people shall be permitted to establish and enforce its own considered standards of fiscal justice."



You recognize that an argument might be made, and no doubt will be made, that the minimum standards of fiscal justice should be Dominion-wide and not provincial. There is a field there for discussion.

MR.WALTERS: I submit, sir, that in considering a taxation scheme you must take cognizance of the burden that comes from the exaction of all the taxing bodies.

COMMISSIONER DAFOE: It would be on the basis of a minimum which could be varied upward but not downward.

MR.WALTERS: You see, the Dominion in its fiscal scheme must give consideration to the fact that other taxes will be imposed by the municipalities and by the provinces, and if it disregards this then there is fiscal injustice, there are inequalities which should not prevail.

THE CHAIRMAN: There is no doubt as to the correctness of that proposition, Mr.Walters.

MR.WALTERS: And I take it that is what you are trying to arrive at here.

COMMISSIONER ANGUS: Are you not setting up a difficult problem there? You say each region should be permitted to establish its own standards of fiscal justice. The Dominion must take account of the taxes which will be imposed in each region or else there will be fiscal injustice. Does not that make ten different standards of fiscal justice, with the Dominion attempting to fit in with the standard of each of the nine provinces? Is that a practical thing?

MR.WALTERS: Perhaps I might better put it this way, that in ensuring fiscal justice to the taxpayers of each particular region one public authority will approach it by one method and another public authority by another. You are aware of the fact that there is no



income tax in the province of Quebec. I do not pretend to have a great knowledge of the mentality of the people of Old France but I have always understood that it is repugnant to the people of France to pay direct taxation, direct taxes. If that be true that is reflected perhaps in the methods of taxation which the people of the Province of Quebec prefer. So that I do not mean to say that one region as opposed to another will deny full fiscal justice to its tax-payers but their idea of the method of ensuring fiscal justice will vary as the economic situation and the needs and so on will vary.

COMMISSIONER ANGUS: Yes, I concede the methods vary, but you have said --

MR.WALTERS: I think I might better have stated it that way than this way.

COMMISSIONER MacKAY: If you carried the principle to the logical conclusion would not it be a different system of fiscal justice for every municipality? We heard some suggestions from certain municipal organizations here last week that there was not quite fiscal justice in the province of Ontario, as between the province and the municipality. All I wish to say is I think you are laying down an impossible standard of application.

MR.WALTERS: Of course I do not intend that this shall come in smaller, smaller circles until you get down to a family.

COMMISSIONER MacKAY: Where are you going to draw the line?

MR.WALTERS: I draw the line by the nine provinces, and I shall develop this later on in my brief.

THE CHAIRMAN: Thank you, Mr.Walters.

MR.WALTERS: "We submit that each province, if it





is to enjoy that measure of political self-government which is the essence of Canadian federation, must have the right to impose its own standards of public morality in its own fields of taxation. After the provinces have established their policies the Dominion may impose its conception of fiscal justice in relation to Confederation as a whole.

When the principal income tax is levied by the Dominion, with identical exemption allowances from coast to coast, serious injustices arise from the differences in the cost of living. It is well known that \$3000 a year represents a much larger real income in the Maritime Provinces than it represents in Ontario or in British Columbia.

While it is agreed that the bases of federations differ considerably in the several federal systems in the world today, it is not without significance that in every other important federal country, the states, provinces, or cantons, have the prior right of taxing incomes.

In the United States all national, state and local taxes, paid or accrued, except income, estate, succession, legacy and gift taxes, and taxes assessed against local benefits, are allowed as deductions from income under the Federal Income Tax. (Revenue Act, 1936, Section 23-c).

In Australia, by Income Tax, Section--

THE CHAIRMAN: Mr. Walters, just on that point for a moment as to the United States: "In the United States all national, state and local taxes, paid or accrued, except income, estate, succession,



legacy and gift taxes, and taxes assessed against local benefits, are allowed as deductions from income under the Federal Income Tax."

Apparently income tax paid to the State is not then allowed as a deduction?

MR.WALTERS: No, Mr.Chairman, but inheritance taxes are.

PROF. TAYLOR: Federal, no. If I might interrupt, it is Federal income taxes.

THE CHAIRMAN: "All national state and local taxes, paid or accrued".

PROF. TAYLOR: This is just a paragraph of a long section which takes almost a page.

MR.WALTERS: Read it.

PROF. TAYLOR: Section 23, Deductions from Gross Income:

- (c) Taxes generally - Taxes paid or accrued within the taxable year, except -
  - (1) Federal income, war-profits, and excess-profits taxes (other than the excess-profits tax imposed by section 106 of the Revenue Act of 1935)".

THE CHAIRMAN: Is that the Federal Act from which you are reading?

PROF.TAYLOR: I am reading from the Federal Act. This is the Act of 1936.

THE CHAIRMAN: What does it mean by the deduction? The Federal Income Tax is deducted?

PROF. TAYLOR: I presume it means in making my income tax return for 1938, and declaring my income for





1937 that I cannot deduct from that the tax I have paid in 1937 on my 1936 income.

(2)" income, war-profits, and excess-profits taxes imposed by the authority of any foreign country".

And it goes on: "But this deduction shall be allowed in in the case --"

It goes on to describe the reciprocal arrangement.

(3) "estate, inheritance, legacy, succession, and gift taxes."

THE CHAIRMAN: That is deducted?

PROF. TAYLOR: No, these may not be deducted. That is, if you have paid an inheritance tax during the year you cannot deduct that from your income during that year. That is as I understand the matter.

THE CHAIRMAN: If you have paid a state income tax during the year?

PROF. TAYLOR: It says: "Estate, inheritance, legacy, succession, and gift taxes", and

(4) "taxes assessed against local benefits of a kind tending to increase the value of the property assessed;"

I presume that means what we would call local improvement taxes. It is section 23(c) of the Revenue Act of 1936, Public Bill No. 740-74th Congress.

COMMISSIONER ANGUS: You deduct the municipal taxes on your own property?

PROF. TAYLOR: That is as I understand it. I had a little difficulty trying to define that myself.

MR. WALTERS: I have here, Mr. Chairman, the Tax Systems of the World, and it sets out that in making the inheritance tax by the federal authority they allow the taxes paid to the states up to 80% of the rate.

COMMISSIONER ANGUS: Is not that just a device for a



relatively uniform inheritance tax?

MR. WALTERS: Yes, in a measure, but it is to recognize the priority of the states in collecting the inheritance tax. I believe I saw a message the other day from Governor Lehman on this very matter, I don't know if we have it here, protesting against the encroachment by the federal authorities upon the State of New York.

"In Australia, by Income Tax, Section 72(1), the tax payer may deduct from his income, before calculating his federal tax -

- (a) all rates which are annually assessed.
- (b) Federal land tax, or land tax imposed under any law of a State or of a territory.
- (c) income tax imposed under any law of a State or of a Territory.

In Germany under the Federal Empire, the State had priority in respect of income taxes. They lost this right with the passing of the Federal form of government.

In Switzerland, Canton and Commune income taxes have priority over the Federal Tax."

These have all come out of this "Tax Systems of the World", 7th Edition.

THE CHAIRMAN: Thank you.

MR. WALTERS: I am not sure if you have a copy of it but I know the Federal authorities have at Ottawa.

THE CHAIRMAN: It would be a very convenient book for reference.

MR. WALTERS: Yes. This book contains our own tax structure to which I shall refer later on, if you so desire. Page 62:

"The Government of Ontario believes that the economic progress of all classes of people



depends in large measure upon the steady accumulation of industrial and social capital. When capital investments proceed confidently and at a healthy pace, employment abounds, Canadian youth finds work at home, sound immigration is encouraged, and standards of living progress. This is true, whatever type of economic system is in operation. No economic system can function progressively where taxation drains the principal sources of new capital to finance current expenditure.

At the present time large amounts of capital are required in Ontario to modernize industrial plants and to extend the development of natural resources.

In 1929 new industrial capital issues in Canada totalled \$470,000,000. In the following years new industrial issues fell drastically as the following table shows:

1929	-	\$ 470,000,000.
1930	-	\$ 274,000,000.
1931	-	\$ 50,000,000.
1932	-	\$ 9,000,000.
1933	-	\$ 9,000,000.
1934	-	\$ 43,000,000.

The following are the statistics of the total capital employed in Ontario manufacturing industries as reported by the Dominion Bureau of Statistics:

1926..\$1,985,166,000	1931..\$ 2,285,361,000
1927.. 2,134,181,000	1932.. 2,144,009,000
1928.. 2,275,921,000	1933.. 2,087,072,000
1929.. 2,418,340,000	1934.. 2,063,721,000





1930 ... \$ 2,431,369,000	1935... \$2,064,194,000
Average	Average
Annual	Annual
Increase	Decrease
1926-30...\$ 111,551,000	1930-35...\$ 72,435,000

Over the next few years probably not less than \$200,000,000 is required for modernization if Ontario industries are to retain and improve their position in both domestic and export markets. These sums must come from private investment, from corporate profits, or from new foreign investment.

The principal discouragement to such investment is the very high rate of tax on corporation profits. This is a form of double taxation which is both onerous and uncertain, especially to foreign investors.

Another discouragement is that the Income War Tax Act expressly disallows the deduction of obsolescence losses on machinery and equipment (Section 6-b). In England obsolescence has been allowed since 1897 by regulation and since 1918 by statute. Now regulations issued in 1931 still **further** broadened and extended the definition of obsolescence. In the United States obsolescence was allowed in part under the Act of 1909, and fully recognized in the Act of 1918. The argument in favour of permitting generous allowances for obsolescence is that it encourages modernization of plant and replacement of out-of-date machinery. It is generally agreed that the law in England has been of definite value in encouraging modernization, and in stimulating the capital goods industry during the depression."



In the Business Profits War Tax Act allowances were made for obsolescence, but not in the income tax, they allow only depreciation.

THE CHAIRMAN: Obsolescence never has been allowed in the income tax?

MR. WALTERS: No sir. Some consideration is given in the fairly generous rates of depreciation.

"In Canada depreciation allowances are more generous than in England. There are, however, a number of industries, for example, hosiery, furniture, certain metal trades, where the allowance of obsolescence would immediately stimulate capital expenditures in plant replacement. The immediate cost to the Treasury would be small, and the loss would be more than returned to the Treasury in the tax revenues from the larger profits of later years."

THE CHAIRMAN: That proposition, which of course must be of great concern to business men engaged in industrial undertakings, I assume has been taken up with the Dominion Department of Finance, has it?

MR. WALTERS: I should imagine it has been the subject of much consideration. I remember a few years ago, perhaps you will recall, that there was great delay in the delivery of Ford cars, it was due to the fact that they had entirely scrapped, they spent millions of dollars in the design of new machinery. Under the act they would get no allowance for scrapping their old machinery and keeping pace with the progress of modern invention.

"The application of the Dominion Income War Tax to personal incomes also includes a number of features which discourage investment and the development of new undertakings."



I make this remark here, sir, that I put it in this form, that if we were administering the act ourselves, - and there is no complaint about the way it is administered by Ottawa; the fact is there is nothing but praise for the way that Mr. Fraser Elliot and his associates have administered the Act - but if it were purely an Ontario act and did not have to fit in and dove-tail in with the Dominion Act, consideration would be given to what are believed to be certain faults in the act itself.

"One such feature is the highly arbitrary distinction between 'earned' and 'investment' income. The distinction was introduced in 1935, applicable to incomes received in 1934, and is made in the following terms:

'Earned Income' means salary, wages, fees, bonuses, pensions, superannuation allowances, retiring allowances, gratuities, honoraria, and the income from any office or employment of profit held by any person, and any income derived by a person in the carrying on or exercise by such person of a trade, vocation or calling, either alone or, in the case of a partnership, as a partner actively engaged in the conduct of the business thereof, and includes indemnities or other remuneration paid to members of Dominion, Provincial or territorial legislative bodies or municipal councils, but shall not include income derived by way of royalties, or any income, irrespective of the source or combination of sources from which it may be derived, in excess of Fourteen Thousand Dollars;

'Investment Income' includes any income not





defined herein as 'earned income' and also  
any amount deemed by this Act to be a dividend  
and any income from whatever sources derived  
in excess of Fourteen Thousand Dollars."

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" The economic justification for imposing higher rates of tax on investment or funded income is that it possesses a greater measure of security. Receipt of funded income makes it less necessary to save for old age or for any other form of economic incapacity. The wholly arbitrary surtax on salaries exceeding \$14,000 a year, a sur tax over and above all other sur taxes, discourages or prevents a substantial amount of saving and investment by men who are in an especially good position to direct advantageously the flow of new investment.

It is interesting to note that the definition of earned income, for purposes of the United States Income Tax Act, is similar to that of the Canadian Act in that it limits this term to \$14,000. The use of this definition in the United States Income Act is different, however, because in that Act there is no additional tax for that proportion of a person's income which is earned which is deemed not to be earned income, rather there is a deduction or credit allowed of a portion of the defined earned income before the tax is calculated. (Revenue Act, 1936, s.25).

In the British Income Tax Act the definition of earned income is again similar to the definition in the Canadian Act, with the all important difference that there is no limit placed at \$14,000 or at any particular point. Again in Great Britain, as in the United States, there is no special tax imposed because a person has income not defined as earned income. Instead there is a credit allowed of 20 per cent of the earned income, as defined, subject to a maximum of £300. (Codified



Bill, s. 81)

It can be seen that in the United States and in Great Britain the definition of earned income has a purpose of value to the taxpayer. It gives the taxpayer an incentive to make a larger earned income, because he will receive a larger credit before the tax is applied."

COMMISSIONER ANGUS: Does not the maximum of £300 come to much the same thing as a limit? I mean, given the different way of calculating the tax, it does, does it not?

MR. WALTERS: It does, to a certain extent. Continuing to quote:

" In Canada this is not the case. In this country investment income is added to earned income and the total is considered the net taxable income. No credit is allowed against net taxable income for a portion of the earned income. The rates of tax are set out in the First Part of the First Schedule of the Dominion Act and range from 3 per cent on the first \$1,000 in excess of exemptions to 56 per cent on all income in excess of \$500,000. On top of this all income in excess of \$14,000 even though it is included in the basis for tax under the First Part of the Schedule is set out again as a basis for tax, this time as investment income and subjected to further tax at rates ranging from 3 per cent on the first \$6,000 in excess of \$14,000 up to 10 per cent on all income in excess of \$200,000. These two taxes are not all. When a man has a total income in excess of \$5,000 he is required to pay in addition 5 per cent of the total of these two taxes.





" Another discouraging aspect of the Dominion Income War Tax Act is that there is no provision for the averaging of losses made in one year against profits in another. This principle has been in force for many years in the British Income Tax Act (Finance Act, 1926, s. 33. Codified Bill, s. 96). Take for example a concern which is just newly organized and which over a period of two, three or four years is building up its business and is running at a loss. Under the present Act it is never given any credit for its accumulated losses or such expenses as advertising or a sales campaign. When the period comes that it makes a profit, it has to pay on the profit made in that particular year and is given no credit for its preliminary losses and expenses without which it most probably would never have made a profit.

Another example -- "

This example is taken from our own file of corporations paying corporation taxes here.

" -- is the case of a company in the business of one of the building trades. In eight of the years from 1918 to 1932, the assessed profits totalled \$160,000 on which it paid taxes of approximately \$16,000. In the seven remaining years it made losses totalling \$150,000. Its total net income during fifteen years was, therefore, only \$10,000 on which it paid taxes of \$16,000 or 160 per cent.

THE CHAIRMAN: How would you deal with a case of that kind, Mr. Walters?

MR. WALTERS: This is, of course, an exaggerated case. No government could be expected to average it over a long period, but I think a closer analysis would disclose that



that this company would have experienced a substantial amount of relief by being allowed to average its losses over a period of three years. I think, perhaps, the justice of this principle is well recognized, although I know that it is objected to by many economists on the score of administration difficulties.

THE CHAIRMAN: It is done in England, you say?

PROFESSOR TAYLOR: Any loss can be pro-rated for the next six years.

COMMISSIONER MACKAY: Would the Treasury lose much by such an arrangement?

MR. WALTERS: The English people are very wise in matters of taxation. In England, I believe sixty per cent of the revenue comes from progressive taxation. I continue to quote:

" Take the case of a farmer having a crop failure over a period of years, or a manufacturer sustaining losses over a period of years. No consideration is given for these lean years, in the event of these farmers and merchants later having profitable years."

Take for example, the farmer: I often hear it said that farmers do not pay income taxes. In good times the farmers of the three prairie provinces have to pay income taxes, as you no doubt know, Commissioner Dafoe.

COMMISSIONER DAFOE: Not recently, at any rate.

MR. WALTERS: No, but when they have crops, these farmers in the west have to pay income taxes. A farmer in the west cannot get away with it like a farmer in Ontario, because the farmer in the west markets his produce through certain centres. This enables the taxing authorities to get all the information concerning the farmer's sales.



This is similar to the case of the professional man who has been out of employment for some time and whose profession has been carried on at a loss.

Continuing to quote:

"Similarly in the case of a person and particularly a professional man who for some years has been out of employment or whose profession has been carried on at a loss, no consideration is given for these lean years, when later he finds himself to have an income above the statutory exemption."

I can refer to the case of a doctor which comes within my own knowledge. It is the case of a well-known doctor

who was lately connected with the provincial government. He had been here in a position, I think he had said he had been here for ten years, then he left. Talking to me the other day, he said that in the ten years people had forgotten that he practised medicine. Somebody else has his patients or perhaps the patients who would go to him believe that this man has been out of practise and is not up to date. The doctors have had to keep up their establishments as well as they were able, although many were on relief. Now, a time comes when the doctors begin to get their practise back and re-establish themselves. They have accumulated debts for which they receive no consideration. Some of them get into the higher income brackets and there is no relief given them for these debts.

Continuing to quote:

"All of these examples have to do with the principle which has been in force in Great Britain for many years permitting losses in one year to be credited against profits of the next succeeding six years. Serious consideration should be given to the institution of the principle of averaging losses and





"profits over a term of years.

Another serious fault is that the Dominion Income War Tax Act refuses to regard the taxpayer's income as a whole, in the one situation where it ought so to be regarded. For instance a person has a fixed income from one source, say a salary of \$15,000. In addition he engages in another business from which he receives no salary but which is carried on during the year at a loss. Under the present Act such a person is not allowed to offset this loss against his salary income. This practice clearly discourages individuals from actively assisting or participating in new or allied undertakings.

(Relief of this nature is granted in the British Income Tax Act--Cottified Bill Section 94 and in U. S. Revenue Act, 1936, section 23--e)."

I would like to make a further observation, Mr. Chairman. Many people are carrying real estate from which the revenue is insufficient to pay the cost of repairs, municipal rates and taxes. The result is a loss. This citizen tries honourably to pay his mortgage interests, pay his rates and taxes. From his \$15,000 a year income, \$5,000 or it might be \$10,000, depending upon the character of his holding is put into this property. Thus, his real income is \$5,000, but he is forced to pay a tax on \$15,000 which offends against the test of ability to pay. Carrying that further, it might be possible that he has nothing and still he pays taxes on his income, even though he is in receipt of no real income. The average man's conception of net income does not always come within the definition of the Act.

THE CHAIRMAN: Just what is the provision in the British Act? You say that, "relief of this nature is granted



in the British Income Tax Act."

MR. WALTERS: Professor Taylor has that information, he will explain it.

PROF. TAYLOR: Section 94 of the British Income Tax Act reads:

"Where a person carries on either solely or in partnership two or more distinct businesses the profits of which are income of Class D--that is the income from a trade, profession, and so on--and in the computation of the assessable income for any year of charge as regards any one or more of those businesses a loss is disclosed, that person may set off the loss or his share of the loss disclosed against the assessable income of any other such business for that year of charge."

COMMISSIONER ANGUS: Would that cover real estate holdings; is that a business?

PROF. TAYLOR: No, I would say, sir, I think that principle is recognized in the British Act. As a matter of fact, I was not listening to Mr. Walters at the moment. Actually, in England they do rather consistently have all land income on one side. The English land revenues are put in a class by themselves and are subject to certain special taxes, against which certain deductions can be made. However, I submit that the principle is there, quite plainly.

THE CHAIRMAN: Under the Canadian Act, the Dominion Income War Tax Act, it is income of each proposed business, is it not?

MR. WALTERS: Yes, and in case of a dispute, the Minister may select which business he will tax. The Income War Tax Act recognizes this situation in respect of corporations. Corporations are permitted to consolidate





the returns of parent and subsidiary corporations. The corporations are allowed to offset the losses sustained by subsidiary companies and absorb that into the profits made<sup>by</sup>/the main companies and the company's profit-earning subsidiaries. A slightly higher rate is now charged, but for years there was no higher rate. The consolidation was permitted provided it was requested at the beginning of a fiscal period and later on it had to be continued. The government does not permit the consolidation of activities or the merging of losses and profits in the case of personal income taxes, so that there is an inequality there.

THE CHAIRMAN: The government does not permit a city man to deduct from his city income the loss he sustains in running a farm.

MR. WALTERS: The government did for a number of years, but it discovered that he was not a farmer, that was his hobby, like golf.

Continuing to quote:

"Some provision should be made for an undertaker whose income is a bookkeeping profit and not a withdrawable cash profit. The present Act makes no distinction between an income which might be in cash and another income which might be in inventories of merchandise, accounts receivable, plant, machinery, equipment and buildings. A developing and expanding business may for several years show a profit on its books, but have a net working capital position which makes the present high rate of tax most embarrassing. It might even be that this embarrassment would be so great that the business would have to be materially curtailed and its growth permanently retarded."

I refer there to businesses under personal ownership and not joint stock companies. It is a most difficult section





of course, to rectify. I recognize that fact, but I am simply pointing it out.

Quoting from the brief:

"An Income Tax Act should allow a deduction with respect to life insurance premiums paid out of income."

I think the making of such allowances encourages the principle of self-help. It seems to me that every man, every wage-earner, and particularly professional men who develop a certain standard of living and who may be suddenly cut off, that man should be entitled to provide an insurance policy which will represent one year of his earned income.

THE CHAIRMAN: How is it dealt with in Great Britain?

MR. WALTERS: That is dealt with in the next sentence or two.

Continuing to quote:

"In Great Britain such relief is given (Codified Bill SS. 90-93). This relief is of course subject to certain limits. The amount deductible may not exceed 7 per cent of the lump sum payable at the completion of the contract, nor may it exceed one-sixth of the individual's total income, nor may it in the case of annuity contracts exceed £100. It is suggested that life insurance premiums on policies up to \$12,000 lump sum value or annuities up to \$1,200 a year ought to be allowed as deductions from taxable income...."

I might say taxable earned income, not invested. I know this section has received consideration at Ottawa, and, I think, quite favourable consideration. Again I wish to say that this is not a criticism of the fact that the Dominion Act does not make such a provision, but I say



an Ontario Act would make such a provision.

Continuing to quote:

"Inasmuch as the Dominion government contributes nothing to the upkeep of the Universities of Canada, it is submitted that the Dominion Act should grant exemption or a deduction for the expense of a son or daughter attending University in the same manner in which a deduction is allowed for a dependent child."

Mr. Chairman, you are one of the Governors of the great university in this city and I imagine you could appreciate the justice of such a provision.

COMMISSIONER ANGUS: Do you mean by that, that the deduction should go on beyond the age of 21 or that it should be larger for the ages 20, 21, and so on?

MR. WALTERS: It should be continued.

COMMISSIONER ANGUS: But not at a higher rate?

MR. WALTERS: No, not at a higher rate. It is the same as if that child were incapable of self-support because of mental or physical handicaps, the state makes an allowance in that case. However, if a citizen, at great sacrifice decides to fit his child to become a more developed citizen for the state and that citizen sends his son or daughter to the university, after the child reaches the age of 21, his exemption ceases. I would say that inasmuch as the Dominion government contributes nothing towards the support of the university--the province largely maintains those institutions--that the Dominion should recognize the fact and allow an exemption for this person.

COMMISSIONER DAFOE: Would you limit it to the relatively small incomes? Could a millionaire claim exemption?

MR. WALTERS: No, Commissioner Dafoe, we would give the millionaire the same exemption. The millionaire is granted the same exemption for his marital status and the



same exemption for his dependent children, as a man in the lower brackets. I think it should be extended. It does not involve a great amount, but I think there is a principle there which should be observed.





COMMISSIONER DAFOE: You were stressing the factor of sacrifice which is why I asked that question.

MR. WALTERS: Well, I mentioned the fact that many people do, and if parents attempt to send their sons to University and do it at a great sacrifice, surely, it seems reasonable on their behalf. And of course, the rain falls on the just as well as on the unjust, and in that case I am not speaking for the millionaires, but they would benefit. But I would not object, perhaps your suggestion might be well to limit this to incomes of a certain type, and to earned incomes.

"Under the Dominion Income War Tax Act when a person under-estimates his tax he is required when the assessment is made to pay the difference in tax plus interest on such difference at 5% per annum from the date the Income Tax as estimated was payable until the date of payment of the final assessment. On the other hand if a person over-estimates his tax and applies for a refund, he may be able to obtain a refund, but there is no provision in the Act for interest to be credited on the over payment. It is submitted that this is very unfair. It is submitted that any overpayment of tax should carry interest at 3% to be calculated from four months after the overpayment first was made."

THE CHAIRMAN: Can you tell us, Mr. Walters, why no provision has been made in the Act for that situation?

MR. WALTERS: Mr. Chairman, I cannot conceive why it has not been made, and I know there has been a public demand from the Atlantic to the Pacific, and I believe every Chamber of Commerce and Board of Trade has requested it. I would like to submit a case which I think will appeal to you more strongly than this, because of your experience in the handling of estates. Suppose that you were the Solicitor ad-



vising the executors of an estate, and these people, charged with the responsibility of investing the income of the estate, your clients, come before you and say "Sir, we are presented with a demand from the income tax authorities for the payment of say \$10,000., - a substantial sum of money, - we want you to advise us as to whether we are taxable. We say we are not." You look through the Act and study the Act and study the Exchequer Court decisions and the Privy Council decisions and the decisions in South Africa and Australia, and so on, and you say "Clearly, you are not subject to tax." They say "That does not matter, the income tax authorities say we are taxable." "Well, I would advise you to appeal, and I would advise you to pay the tax". But they say "Sir, if we pay the tax, we are the executors, we are responsible that the capital of this estate shall continue to earn an income". "Well, then, I guess you have to continue to earn an income. Do not pay the tax". "But if we do not pay the tax and if the Court decides against us we will not only have to pay the tax but we will have to pay 8% interest". Now, I submit that that is something that should not be in any taxing Statute.

THE CHAIRMAN: I agree with you there, Mr. Walters. I think it is not a fair provision, that over payment should not carry interest at a moderate rate, so that the party who has over-paid his tax, if he gets a return of it, should get interest at a moderate rate. But is there a similar provision in the United States or the British Acts, or is our Act exceptional in that respect?

MR. WALTERS: I believe that ours is exceptional. I know that even the much criticized Succession Duty Act makes provision for any overpayment. We refund it.

COMMISSIONER MacKAY: Are there ever any overpayments?

MR. WALTERS: Yes. Over \$3000.00 was refunded last year on Succession Duties by the Ontario Government.





COMMISSIONER SIROIS: With interest?

MR. WALTERS: With interest. Rather grudgingly given, but given just the same.

COMMISSIONER DAFOE: At what rate of interest, Mr. Walters?

MR. WALTERS: 3%. We have paid as high as 4%, and that is a good rate of interest. It is better than we pay in our Provincial Savings Office.

THE CHAIRMAN: Does your Succession Duty Act provide that if a party fails to pay on demand the interest commences to run, and so on, - it runs at a certain percentage?

MR. WALTERS: 6%, and in case of a dispute it is paid. But the case that I submit to you I submit, Sir, that as the lawyer for that estate you would be very much concerned. You are in a dilemma.

THE CHAIRMAN: It raises a difficult problem.

MR. WALTERS: I know that in this opinion I am supported by the argument, - I believe your patriot, Dr. Dafoe, has supported that contention, so I must be right.

COMMISSIONER DAFOE: He supports all good causes.

MR. WALTERS: This is not the first time you have come to my rescue, so I read. May I read this concluding paragraph, Mr. Cheirman, then I would like to stop here before we touch Succession Duties.

"These points have been raised, not in criticism, of the technical administration of the Dominion Income War Tax Act. (For which this Government has nothing but praise as far as their handling of the tax is concerned). but as points in which Ontario's experience of the past few years has indicated that changes are desirable. The Ontario Act, of course, contains all the same faults, because for administrative reasons, and to simplify the task of the taxpayer in preparing his returns, the Ontario Act has been made, mutatis





mutandis, identical with the Dominion Act, except in the matter of rates of tax. The Ontario Government has received the most cordial cooperation from the Dominion officials in all matters concerned with the administrative machinery of levying and collecting this revenue."

COMMISSIONER ANGUS: When you say the two taxes are identical, are they identical on this point; the Dominion gives credit for American Income Tax, - taxes paid on American income. Does the Province give that too?

MR. WALTERS: Yes, it does, although sometimes I wonder why we should do it. But we have done it in order that if a person is subject to tax under the Dominion, he is bound to pay a tax, be it ever so small, under our Act; we grant the same exemption to all foreign jurisdictions which grant that exemption to the Dominion. If you will permit me in just a moment I will proceed with the discussion on Succession Duties.

I proceed with the Succession Duty. On page 67, in Book No. 2:

"Under the Ontario Succession Duty Act there are three principal subjects upon which the tax falls, namely, property passing on the death, a transmission within the Province as defined in the Act, of personal property locally situate outside the Province, and certain gifts made by the deceased person during his lifetime.

Property passing on the death as defined in the Ontario Succession Duty Act, R.S.O. 1937, Ch. 26, Section 10, includes not only property actually passing, but in addition, certain classes of property which under the Act is deemed to pass, namely, property held jointly, annuities and insurance, property over which the Deceased had a general power of disposal,



"property the subject of certain kinds of settlement made during life and property which was the subject of a gift made outside Ontario by the deceased person, if he were domiciled in Ontario at the time of the gift and at the time of the death, and if the property itself were situate in the Province of Ontario at the time of the death.

The Act provides that when a person dies domiciled within Ontario and owning property being personalty situate outside of Ontario at the time of the death, passing to a person resident or domiciled within Ontario at the time of the death, there shall be deemed to be with respect to such property, a transmission within Ontario of personal property locally situate outside of Ontario (R.S.O. 1937, ch. 14.) This provision and the imposition of duty upon such a 'transmission' were first introduced into the Ontario Act in the year 1934 (Statutes of Ontario, 1934, Ch. 55) as a result of the decision of the Privy Council in the case of *Provincial Treasurer of Alberta vs. Kerr*, (1933), 4 D.L.R. 81. Prior to that decision the Act had purported to tax only property situate in Ontario upon the assumption that the widely accepted opinion was correct, that the personal property of a person who died domiciled within the Province, although locally situate outside the Province, was to be treated as property within the Province for the purposes of taxation under the B.N.A. Act, by reason of the application of the doctrine---*mobilia sequuntur personam*. If this view had been correct it would follow that the intangible personal property of a deceased person would have been deemed to be within the Province, and consequently, subject to duty under the Act. The decision in the Kerr case, however, definitely upset



"this view, and accordingly, the tax upon all transmissions defined as set out above, was introduced.

Under the present Ontario Act, the duty upon gifts made during the lifetime is made by imposing the tax upon certain 'dispositions' made in Ontario, a disposition as defined in the Statute, being the act of making a gift either absolute or by way of trust or otherwise, but excluding, of course, the settlement comprised in the definition of 'property passing' as mentioned above.

For the purpose of preventing evasion of duty upon merely technical grounds, the Act also imposes duty upon a person to whom a disposition of personal property has been made outside Ontario, where both the donor and the donee were domiciled in Ontario at the time of the making of the disposition and at the time of the death.

The following observations are submitted upon the incidence of the duty imposed by the Ontario Succession Duty Act:

The duty is imposed upon certain property, transmissions of property and dispositions of property as defined in the Act. In considering the duty upon property, little question arises with respect to real estate, as Ontario does not attempt to impose a duty upon real property situate outside its boundaries. In considering personal property, however, it should be emphasized that since 1934, the date of the decision in Provincial Treasurer of Alberta vs. Kerr (1933) 4 D.L.R. 81, the Province has imposed a tax only upon personal property locally situate in Ontario."

MR. LANG: Might I interrupt. That wording is wrong.

"The date of the decision" should be "following the decision, - in 1934, following that decision".





MR. WALTERS: The brief continues:

"Furthermore the Province does not attempt to define what shall be personal property situate in Ontario. The duty is imposed only upon such property as is considered by law to be locally situate inside the Province.

The duty upon a transmission or upon a disposition as defined in the Act is in effect a tax upon a person or property. Here again the duty under the Act must fall upon a person or upon property within Ontario. It is accordingly submitted that in all of its aspects the Ontario Succession Duty Act falls clearly within the constitutional limits allotted to the Province under the British North America Act."

COMMISSIONER SIROIS: Is that contested?

MR. WALTERS: I have never heard it contested, but it is just a statement made there because other jurisdictions might look hungrily at that source of revenue.

THE CHAIRMAN: The point made by other jurisdictions, Mr. Walters, was quite different; it was not a question of the constitutional validity of various provincial Succession Duty Acts, but the point made was that the duty should be collected by the Dominion because moneys accumulated, particularly in which estates had been as a result of business carried on all over Canada, therefore it would be a fairer division if it were collected by the Dominion and distributed by it for the public purpose, - that is, used for public revenue, and thereby would operate, of course, as a transference of a certain amount to other provinces. I think that is the basis upon which the contentions were made in certain briefs submitted to us.

MR. WALTERS: I submit, Mr. Chairman, that they are not on very good ground, and they were speaking without a knowledge of the facts. You would have to find out how these different fortunes are made up. One of the wealthiest families



in this country was the Booth family, in the Ottawa Valley, and I think their fortune was built up from the natural resources, mostly in this Province.

THE CHAIRMAN: I suppose in this Province, and possibly some in Quebec.

MR. WALTERS: Yes. Of course, it is difficult to trace all the tributaries that run into a great stream, but a great many of these fortunes originated in this Province of Ontario, and were built up by reason of the development of the Province itself, and some of the fortunes were made by people who came to us from other countries, and who did not even make their fortune in this country; and some were made by Ontario citizens who have investments in the United States. One of the wealthiest taxpayers in the Province of Ontario is in that position. He discussed with me the morality of his forming a Corporation in Nassau, and he said "Well, why should you object? I did not make this money in Canada". There are a great many exceptions, and I do not think they are on very good ground; it is pretty hard to prove.

THE CHAIRMAN: It is difficult, I think when the point was raised I suggested that a good many fortunes, - at least a number in Ontario, had been made out of the mining development of Ontario, and had come wholly out of Ontario's natural resources.

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COMMISSIONER DAFOE: In the very numerous representations which have been made to us on this question there has not been agreement as to the disposition of the money that was raised. There has been a divergency of views on that point.

MR. WALTERS: In what way, Dr. Dafoe, do you mean?

COMMISSIONER DAFOE: For instance Manitoba suggests the Dominion should take over the Succession Duties, but other representations did not go that far. But there has been agreement in every representation made to us that there ought to be a uniform succession duty throughout Canada and some kind of central collection even though the collections were returned to the provinces.

MR. WALTERS: On what ground should there be uniformity of rates of succession duty?

COMMISSIONER DAFOE: On the ground that a citizen of Canada ought not to be handicapped in his investments or in his property by laying himself open to the possibility of double, duplicate taxation. I have had a memorandum put in my hands which shows that a man's whole estate might very easily be absorbed in succession duties, and it was that possibility that inspired the recommendations. We had, for instance, a brief at Ottawa from the Dominion Mortgage & Investment Company, and they repeated it here. Then we had one from the Canada Insurance Federation and the central collection was suggested in the brief of the Citizens Research Bureau last week, in which they said there had been an improvement in the collection of succession duty, there had been certain reciprocal arrangements, but that the collection of succession duties has now lapsed into its original chaotic condition. The representations were only in part that the Dominion should take over the tax for its purposes,





for redistribution. But the other point was stressed everywhere, that there ought to be central collection without the conflict between the provincial jurisdictions.

MR.WALTERS: I submit, sir, that argument might be in favor of the prevention of overlapping, but certainly is no argument for a uniform rate of succession duty. I do not see why any person would argue for a uniform rate of taxation as between Montreal and Toronto, municipal taxation, and I think you might just as well argue for a uniform rate for succession duty, because it is only one part of the fiscal system, and where we might be high in the rates of succession duty, we might be correspondingly low in the rates of income tax.

COMMISSIONER DAFOE: Yes, but a man with large investments might have property in every province of the Dominion and he might, by claims by the various provinces, have the bulk of his estate taken away from him. At least I am told that is a possibility. And we were told in Prince Edward Island of a case where a very large deduction was made, the facts were given, which the body making the representation thought was an improper deduction, by one of the provincial governments, not Ontario; and that is what is operating in the minds of people. I do not think there is any objection to inheritance taxes or even a differentiation in inheritance taxes, but there ought to be some form either of central collection or of reciprocal arrangements which would prevent the inheritance tax being beyond that consideration of fiscal justice to which reference has been made this morning.

MR.WALTERS: Dealing with those two points you have raised, Dr.Dafoe, with respect to the first I think you



will agree with me that there is no ground for a demand for a uniform rate of succession duty. I think you will agree that there is no demand for it and there is no ground for a demand. Now, with respect to overlapping, there is provision in the Succession Duty Act of Ontario for reciprocal agreements between provinces and there was for years an agreement, there were agreements subsisting between this province and others. Then one day one of the provinces, without any consultation here, and without any notice until after we were aware of it from items we read, abrogated the agreement. It was the Province of Alberta. They abrogated the agreement between Ontario and their own province. The matter was considered here, and in view of the fact that Dominion-Provincial relations might be discussed, the Government here just cleared the boards and said "We will stand where we are, we will rescind these agreements for the time being". But this government has been in the position of agreeing with other provinces as to prevention of overlapping and is ready at all times to discuss these points with the other provinces. The same thing occurs to a very marked degree with respect to corporation taxes, and I think the point is well taken. Of course the overlapping is not as great as it used to be. A person owning stock in a company with head office in one province, residing in another, if the stock may be effectively dealt in and transferred in the province in which the person is domiciled, although the head office is in another, there is no overlapping there.

THE CHAIRMAN: May there not be the case, Mr. Walters, - I think it is the case to which my colleague, Dr. Dafoe referred, - presented to us in Prince Edward Island, where a man may be domiciled in Prince Edward Island,



owning stock where the stock register is kept in another province, and where it can only be effectively transferred on the stock register, Prince Edward Island may collect a succession duty on that stock, because the man is domiciled in the Province, and the beneficiaries are in the province; on the other hand, the province where it can only be effectively transferred may seek to collect a succession duty on that stock, may it not?

MR.LANG: If the company had a transfer agency in Prince Edward Island would not the situation be different?

THE CHAIRMAN: It might be, but I am speaking of the case that was presented to us, this was a Montreal company, where the transfer agency was in Montreal, and the stock could only be effectively transferred on the register. The owner of the stock had no control over that situation whatever, and the complaint was that Quebec collected a very large sum in succession duties from that estate and as, in Prince Edward Island, they allow a deduction for any duty paid in another province, Prince Edward Island got very little of the estate, the bulk of the duty went to the other province.

MR.WALTERS: The Government of this province, Mr. Chairman, is ready to discuss reciprocal agreements and has had reciprocal agreements with British Columbia, Manitoba, Prince Edward Island. I think we had with British Columbia, Manitoba, New Brunswick, Nova Scotia, Saskatchewan, Prince Edward Island, Quebec, Alberta, Trinidad and Tobago at different times, and also the United Kingdom.

THE CHAIRMAN: At the present time all these reciprocal agreements have been cancelled, have they?

MR.WALTERS: Save the external ones.





THE CHAIRMAN: That is, all the internal ones have been cancelled.

MR. WALTERS: All the internal ones.

THE CHAIRMAN: What was the date of this cancellation, approximately?

MR. WALTERS: June 1st last year, just following the abrogation by the Province of Alberta.

COMMISSIONER DAFOE: That action has also been taken by all the other provinces? All the Canadian provinces have cancelled their reciprocal arrangements with the other provinces?

MR. WALTERS: I don't know about the others.

COMMISSIONER DAFOE: I think that is the situation.

MR. WALTERS: But I think it is highly desirable that these agreements should exist and the government is not reluctant here about entering into such agreements on a proper basis.

COMMISSIONER ANGUS: Do you think it is more desirable that the matter should be dealt with by reciprocal agreements, which after all may be denounced, or should it be dealt with by constitutional provision?

MR. WALTERS: I think the present system is ideal and the overlapping is not as great as one would imagine. It does not occur in, I guess, one case in probably five hundred.

COMMISSIONER SIROIS: More than that in Quebec.

MR. WALTERS: Yes, perhaps a thousand.

THE CHAIRMAN: Did you say these agreements were denounced because of the possible review of Dominion-Provincial Relations?

MR. WALTERS: If I said that I put it in a way I did not intend. I said that we had this action on the part of one province and it was considered that we had better approach



this question anew and afresh because it has been discussed at every Dominion-Provincial conference. We have had discussions here with the Canadian Manufacturers Association dealing with all overlapping, particularly between the two contiguous provinces.

THE CHAIRMAN: How long is it since you have had a reciprocal agreement with Quebec?

MR. WALTERS: Mr. J.D. O'Brien, Senior Solicitor of the Department, informs me that it was broken off in 1925.

THE CHAIRMAN: So far as Ontario citizens are concerned it would be principally Quebec, I should think, that would most concern them.

MR. WALTERS: Yes.

THE CHAIRMAN: Because of so many large corporations having their head office in Montreal and the stock being registered there.

MR. WALTERS: Yes, but then they can be effectively dealt with here, and if they cannot it is a matter that is watched, people who have large investments in different provinces, they look after this pretty well. One way of escaping this is to have all such holdings put in a personal corporation. You will recall that in 1931 it was suggested at Ottawa that the tax on personal corporations would be abolished at the same time the tax on family corporations was abolished, and it was submitted by different people from various parts of Canada that they had now grown up to use the personal corporation purely for the purpose of evading overlapping of succession duty which exists there. As I say, I do not believe there is one case in 500 where a file comes through this office where it occurs.

THE CHAIRMAN: Of course where people have their



investments in stocks there must be a good many cases as between Ontario and Quebec I should think, Mr. Walters?

MR. WALTERS: That might be just with people who are trading in and out of the market from day to day, but not the people who have their permanent investments. They do not make them on that basis any more.

COMMISSIONER DAFOE: There must be a great deal of feeling about this because apart from the unanimity of the protests about the tax on real estate this has been the subject of the greatest unanimity, in some respects the strongest unanimity, although there is not agreement as to what should be done with the money after it is collected. One of the briefs presented here last week said that the effect of the present lack of arrangement was that it limited the freedom of people to make investments. That is they had to consider where they had better have their investments before they died. That is not a very desirable thing to happen in a country.

MR. WALTERS: I submit it is not an insurmountable obstacle and almost is not a factor of any great importance. I have discussed this with the treasurer of the Province of Québec, and with the former treasurer, Colonel Stockwell, was it, Dr. Sirois?

COMMISSIONER SIROIS: Yes.

THE CHAIRMAN: Of course a great many cases have arisen, quite a number have come under my observation, in connection with Ontario citizens holding stock in Montreal companies, where they could not have the transfer made on the stock register until the succession duty was paid. Even though they protested that they did not come under the Act, they had to pay the duty and take the chance of suing for its recovery or refuse to pay the duty and have the transfer of the stock blocked.

MR. WALTERS: I have only seen one such case in my





experience here, and that was a case of the Province of British Columbia.

COMMISSIONER DAFOE: The particulars of a case in which Quebec is involved were set forth in one of our briefs last week, the name and the particulars. I cannot remember which brief it was.

MR. WALTERS: I wonder if that claim is not set forth to bolster up a case for the centralization of this tax in order that the tax that Ontario claims at the present time as its exclusive right is distributed in the same manner as is the Dominion income tax? I rather think that those objections are magnified for that very reason. As I say here in this province of Ontario where we collect more succession duty than all the provinces put together, we do not have it perhaps in one case in a thousand, it does not occur. But even there the remedy is right here, and if Manitoba wants to enter into a reciprocal agreement with this government, 'Barkis is willing'.

THE CHAIRMAN: What was the object, then, of cancelling all the agreements? I can understand when Alberta gave notice, you would also terminate, if necessary, the Alberta agreement. What was the object of terminating the agreements with the other provinces?

MR. WALTERS: I suppose to review the situation again once more, Mr. Chairman.

Are there any technical questions you would like to ask about the succession duties other than the ones that have been raised?

COMMISSIONER ANGUS: Are there any discriminatory duties under the Ontario Act with regard to the place of residence of the beneficiary? Is there a heavier duty if the beneficiary lives outside the province than if he lives in it?



MR.WALTERS: No, I am informed that there are none.

COMMISSIONER SIROIS: Mr.Walters, on the preceding page you say that you can tax gifts made "being the act of making a gift either absolute or by way of trust or otherwise". Is there a time limit?

MR.WALTERS: There is a time limit. Gifts given absolutely to members of a family for more than ten years before the date of death are entirely exempt.

THE CHAIRMAN: Regardless of the amount?

MR.WALTERS: Regardless of the amount.

COMMISSIONER SIROIS: When they are given full ownership?

MR.WALTERS: Providing they are absolute and irrevocable.

COMMISSIONER SIROIS: No strings whatever?

MR.WALTERS: No strings whatever.

THE CHAIRMAN: Then, within ten years, Mr.Walters, there is a qualified provision is there?

MR.WALTERS: Where necessary, and for education.

THE CHAIRMAN: There is a limit of \$20,000 to a single beneficiary, is there not?

MR.WALTERS: Mr.Chairman, Mr. J.D. O'Brien, K.C, the Senior Solicitor of the Succession Duty Branch is here, and I think he might clear that up.

THE CHAIRMAN: Yes, we will be very glad to hear Mr. O'Brien. It is one o'clock, we will hear you at 2:30.

MR.O'BRIEN: Very well, Mr.Chairman.

--- The Commission adjourned at 1 P.M. to resume at 2:30 P.M.

( Page 7675 follows)



## AFTERNOON SESSION

The Commission resumed at 2.30 p.m.

THE CHAIRMAN: I think, Mr. O'Brien was just going to answer a question, when we adjourned.

MR. LANG: Before Mr. O'Brien speaks, Mr. Chairman, might I refer to page 31 of book two. Near the bottom of the page it says:

"A complete description of all taxes now levied by the province of Ontario is given in the Appendix pages 1-20, and pages 8-14."

In addition to the tables which are now in the printed appendix, I wish to file as an exhibit a table which we have marked "B 2". It is a statement in connection with highways. It is a statement of the net road expenditure by the province, on all classes of roads, 1920 to 1937 inclusive. I would like to file that statement now.

THE CHAIRMAN: That will be exhibit number 304.

EXHIBIT NO. 304: Statement of the net road expenditure by the province.

THE CHAIRMAN: I take it, Mr. Lang, that the item "ordinary expenditure", means expenditure by way of repair and maintenance as distinguished from capital expenditure.

MR. LANG: Yes, I should say so.

THE CHAIRMAN: The capital expenditure in column two would be the construction of new important highways, would it?

MR. LANG: Yes, it would.

THE CHAIRMAN: Interest on the highway debt would total \$444,000,000 and the revenue would be \$231,000,000. The deficit would be \$214,000,000, that is the total expenditure on highways, both ordinary and capital since





1920, exceeds the total revenue by \$214,000,000.

MR. LANG: Yes, that is correct.

THE CHAIRMAN: That is the revenue from gasoline taxes and motor licenses combined, is it?

MR. LANG: Yes, sir, it is. There was a question asked before adjournment and Mr. O'Brien, the senior solicitor of the Succession Duties Department is here to deal with that question.

MR. O'BRIEN: Mr. Chairman and Gentlemen of the Commission: Mr. Walters was enumerating, just before the adjournment, and you asked, Mr. Chairman, with reference to the \$20,000 exemption. This has been in force for approximately the past eighteen years. Recently a slight change was made in the wording to conform with certain other sections. The provision is as follows: Where a deceased person gave property absolutely more than three years before his death, to the father, mother, child, son-in-law, or daughter-in-law, they are exempt to the extent of \$20,000 in the aggregate, that is, among them all. The word "child" is broadly defined to include anybody to whom the disponent stood in loco parentis or anybody who was adopted by the deceased.

THE CHAIRMAN: It is for property given more than three years before the deceased's death?

Mr. O'BRIEN: Yes, sir, that is correct.

THE CHAIRMAN: Mr. Walters intimated that if the gift were made more than ten year's before the death, it was entirely exempted.

MR. O'BRIEN: Yes, It is entirely exempt, it is outside the operation of the Act, altogether, if made ten years before the death.

THE CHAIRMAN: Mr. Walters, just before passing from Succession Duties would you mind giving us the information as to the dates of the reciprocal agreements, and the



dates of the terminations, in order that it might be on the record?

MR. WALTERS: The first provision to enable the province to enter the first class of reciprocal agreements was made in 1905, clause B of sub-section 9 of section 4, as enacted by section 8 of chapter 6 of the statutes of Ontario, 1905, and with various changes in form this provision has been continued to the present, that is, up until the time they ~~abrogated~~. Under this provision reciprocal agreements were made with the following jurisdictions to take effect as from the following dates:

"United Kingdom of Great Britain and Ireland, now Great Britain.....	January 12th, 1906
British Columbia	July 2nd, 1908
Manitoba	April 30th, 1909
New Brunswick	July 23rd, 1907
Nova Scotia	Sept. 23rd, 1907
Saskatchewan	Aug. 28th, 1908
Prince Edward Island	Nov. 14th, 1912
Quebec	Oct. 17th, 1913
Alberta	June 9th, 1919
Trinidad and Tobago	April 8th, 1932

At the present time, such agreements are in effect only with respect to Great Britain, Trinidad and Tobago, the other agreements having been terminated by mutual consent. The agreements with Alberta, Nova Scotia, and British Columbia, were terminated as of the first of June, 1937, and with the other provinces as of the fourteenth of April 1925. So that Prince Edward Island agreed to the abrogation of the arrangement.

THE CHAIRMAN: I think it was the Board of Trade in Prince Edward Island that pointed out the disability under which they claimed Prince Edward Island laboured by reason of the amount of succession duty collected



by the provinces other than the province of domicile. No doubt it was the province of Quebec to which reference was made, where residents of Prince Edward Island had apparently substantial stock holdings in companies with head offices in the city of Montreal, and these people had to pay a substantial amount of succession duty at that point. You say it was terminated by mutual consent. I suppose you were not here in 1925, and you could not say what special reason there was for terminating the Quebec and Ontario agreement.

MR. WALTERS: Well, I am not informed on that point, although I have heard it discussed by provincial treasurers of the various provinces. They all seemed to be satisfied with the present arrangement.

I wonder if the persons who submitted this brief to the Commission--did they inform the Commission as to whether they had ever made any representations to their own government on this point?

THE CHAIRMAN: I do not recall, for the time being.

MR. WALTERS: That would be the proper procedure, not that this would be improper, but if those people did not do that, they overlooked a good opportunity.

THE CHAIRMAN: Apparently, except in three provinces, most of the agreements were abrogated in the late twenties.

MR. WALTERS: In 1925. I shall read this document on Succession Duties reciprocal agreements, and then I shall file it as an exhibit.

"The provision to enable the province to enter into reciprocal agreements of the second type above mentioned, was first enacted in 1928 (Statutes of Ontario, 18 Geo. V. Ch. 7, Section 2) and the provision has been continued to the present time. Reciprocal agreements under this provision were entered





"into with Prince Edward Island and New Brunswick as of the 10th day of April, 1930, and the 27th day of March, 1934, respectively, and were terminated as of the 1st day of June, 1937. An agreement was also made with the Yukon Territory as of June 15th, 1928, but is no longer in force.

Commencing with the year 1928, the province also entered into reciprocal arrangements of this kind with twenty-seven of the United States, and the District of Columbia and Territory of Hawaii, but by 1934 all of such agreements were cancelled, they having become unworkable due to the different principles prevailing in this country and the United States on the question of local situs of intangible personalty."

THE CHAIRMAN: That will be exhibit number 305.

EXHIBIT NO. 305: Succession Duty reciprocal arrangements.

THE CHAIRMAN: Mr. Walters, just one question.

You speak of two classes of reciprocal agreements, what is the difference?

MR. WALTERS: I only read the latter part of that document as I thought that was the part with which you were concerned. The answer to your question is contained in the first part of the agreement which I shall read if you desire.

THE CHAIRMAN: No, just so long as we have it here.

MR. WALTERS: You asked me this morning, Mr. Chairman, as to any representations made at Dominion-Provincial conferences held prior to the time of which I had knowledge. At the lunch hour I turned to the, "Precis of Discussions, Dominion-Provincial Conference, November 3 to 10, 1927". This is, as the title indicates, a summary and does not contain a verbatim report of what was said. I am



informed that at that conference the late Hon. J. A. Robb went quite a way in expressing the view that the Dominion government might look with favour upon the request to relinquish the personal income tax. His attitude towards that tax was clearly indicated by his budgets. You will recall he first gave a ten per cent discount and he not only gave a discount for personal income but also corporations. I believe he gave three successive deductions.

THE CHAIRMAN: Very welcome deductions, too.

MR. WALTERS: Very welcome, and I think it perhaps served its purpose.

THE CHAIRMAN: Of course, at that time, Mr. Walters, there were expanding revenues and surplus~~er~~, as I recall it.

MR. WALTERS: Yes, sir, but at that time, in that very conference, the Hon. Mr. Robb pointed out:

"The Minister took the conference into his confidence with respect to the war debt which to-day amounts to \$1,694,621,687.00, with an annual cost of carrying including fixed charges of \$162,799,000."

So that notwithstanding the fact that the war debt was over one billion dollars and there were carrying charges which exceeded \$162,000,000, the Minister of Finance seriously considered relinquishing that fiscal measure and turning it back to the province. I have heard it expressed that his idea was that the Dominion government would be well rid of it, but would retain the corporation tax. In fact, if I am right, later on, I gather from his remarks because this question was raised particularly by Dr. MacLean, the Premier of British Columbia who embodied it in his case as one of the four reasons--summarizing his speech, Dr. MacLean felt



that there should be a return for the railway land for which the province had paid heavily for development without receiving any tax and that there should be a withdrawal by the federal government from the income tax field.

He pressed this point very strongly.

THE CHAIRMAN: British Columbia has always pressed that point.

MR. WALTERS: I think the succeeding year or shortly after that, Dr. MacLean's government was defeated at the polls and Dr. MacLean became a candidate for the Dominion seat in Victoria. The Hon. Mr. Robb, went there and campaigned for him. It was said at that time, that if MacLean could only get the Hon. Mr. Robb to announce to the people, who were composed largely of pensioners and so on, that the Dominion government would implement the Hon. Mr. Robb's implied promise to return to the province the sole right of collecting income taxes, Dr. MacLean would be elected. The Hon. Mr. Robb did not make the promise and Mr. Maclean was not elected.

THE CHAIRMAN: It shows that Mr. Robb was an honest man, at any rate.

MR. WALTERS: He was an honest man, and I believe what moved him to refrain from making a statement was that he was dealing only with a by-election which concerned a constituency in British Columbia. He did not think it was very fitting for him to bring up a matter which concerned the other provinces of Canada to win a single seat in Victoria.

"Coming to the much disputed question of the Income Tax"--so that it was a much disputed question even at this time, in 1927.

THE CHAIRMAN: There is no question about that, that is the reason I asked if there were resolutions dealing with





it.

MR. WALTERS: The government takes no exception to Mr. Robb's statement with regard to the Corporation Tax. I shall read further from that paragraph:

"Coming to the much-disputed question of the income tax, Mr. Robb dealt with the contention that it was opposed to the spirit of the British North America Act because it was an invasion of the direct field of taxation. The income tax last year had brought in forty-eight millions of which twenty-nine millions or 69 per cent came from the corporation, 80 per cent being from Ontario and Quebec. It might be contended that those provinces were better able to pay. This, however, was not the explanation. Montreal and Toronto were the headquarters of railway corporations, banks, life and fire insurance companies and wholesale houses doing business all over the Dominion. Naturally the income tax was paid at the head office, but everybody interested in these businesses made contributions indirectly. In Quebec individual payments had been six millions and corporation payments eight millions. In Ontario the proportion had been seven to fourteen millions. In British Columbia individuals paid one hundred and twenty-seven thousand dollars and corporations two millions seven hundred and four thousand dollars. While everybody might be regarded as paying something toward income tax, under the present exemptions it did not bear heavily on the average person."

The exemption was \$3,000 at that time, for married



persons and the tax is not graduated the way it is to-day. If I find any other such writings, I shall produce them for you, Mr. Chairman.

THE CHAIRMAN: We shall be very glad to have them.

MR. WALTERS: It was a moot question then and vigorously opposed by the province of British Columbia. It was referred to by Premier Brownlee, who, in the succeeding year, or perhaps two years later, introduced into Alberta the provincial Income Tax.

THE CHAIRMAN: The province of British Columbia has consistently, from the start, taken that position. I think British Columbia moved the resolution in the 1918 conference to which I referred.

MR. WALTERS: British Columbia was first in the field in respect to provincial income tax and has regarded always, the Dominion jurisdiction as the "Cuckoo in the nest" with respect to income taxes.

With your permission, sir, I shall continue with the social services. Some reference was made yesterday to the rapid increase of the extension of social services and the expansion of the secondary functions of government. It is <sup>in</sup>no spirit of complaint that this government refers to this but rather does it pride itself upon the extension of these social services. It does not complain of the burden, but it complains of not being allowed to enjoy its own revenue.

Quoting from the brief, commencing at the middle of page 69:

"The Government of Ontario believes that all the functions of the state commonly grouped under the general title of the social services can be administered best by the province from the standpoint of both financial and human efficiency.



"The proper role of the state in relation to social services is still a matter of controversy, and the lines of development and the methods of administration are still in the experimental stage. There are wide differences of opinion in Canada, and especially between different parts of Canada, as to how far governments should go in these matters, and what broad types of legislation should be enacted.

Unquestionably the proper answers to all these questions differ with the circumstances, the economic organization, and the public morality predominant in each region."

Again I say that it is not the standard of social service. We are only dealing with the fiscal justice of the matter.

Continuing to quote:

"Under these circumstances the provinces should be left free in these fields to follow their own lines of historical development. When the time comes that there is substantial unanimity among the provinces as to the objectives of state policy, the most suitable types of legislation, and the proper administrative machinery of control, it will be the proper time for the provinces to confer as to the desirability of developing either reciprocal agreements or uniform legislation, or possibly of inviting the Dominion government to assume administrative or other responsibilities in the coordination of provincial schemes.

The costs of the principal social services in Ontario are set out in various tables in the appendix, as follows:

Education, Tables 15--17"





With your permission, I shall refer first to the Educational tables 15 to 17. This is a most interesting table, Mr. Chairman.

THE CHAIRMAN: Are you referring to the table on page 16?

MR. WALTERS: I am referring to table number 15, in book III. There is a wealth of material contained in this table. You will observe, sir, that this excludes agriculture. These tables were prepared for the Commission's sitting by the Department of Education.

THE CHAIRMAN: I notice, Mr. Walters, a drop in the grant. In 1933-34-35 and 1936. To what was that due?

MR. WALTERS: There was a slight hiatus there due to the change in the fiscal year. Grants are made for the fiscal year, and in 1935 it was changed from October 31st, to March 31st.

THE CHAIRMAN: But I see the total grant in 1930-31 was \$5,379,000 and in 1936-37 it was \$4,054,000.

MR. WALTERS: In which column, sir?

THE CHAIRMAN: The column dealing with Public and Separate schools.

MR. WALTERS: Oh, public and separate schools, yes. There were some changes in the grant. The rate declined, as I have already intimated, but I believe the grants are being increased this year by about \$1,250,000.

THE CHAIRMAN: I notice that makes a total grant for all purposes of \$13,354,000 in 1932-33, no, that is 1931-32. By 1936-37 that has dropped to \$10,067,000, is that not correct?

MR. WALTERS: Perhaps we might find the answer if we follow on to the next page. Of course, there was some intentional cutting of grants in 1933, because of the budgetary position of the government of the day, I think.

THE CHAIRMAN: We were given some figures the other



day concerning the percentage of the provincial government grant to the total amount raised by the municipalities. This was given by the Ontario School Trustees Association. My recollection is that they said about 15 per cent was the provincial government grant, but this statement would show a higher percentage than that.

MR. WALTERS: They were dealing with the primary schools, sir. This table gives the total governmental expenditure on education, including universities.

THE CHAIRMAN: Public and separate schools, high schools, collegiate institutes, vocational schools, where do the universities come in in that list?

MR. WALTERS: It is contained in the fourth column, sir. You will observe, sir, that the grants for 1936-37 exceeds those of the previous year.

THE CHAIRMAN: What is the government's view with reference to the representations made to us by the School Teachers' Association and by the School Trustee's Association, that the efficiency of the schools could not be maintained out of local taxation and the present government grant. It was contended that increased assistance was needed.

MR. WALTERS: I think the best answer to that is the fact that the Minister of Education asked for an additional vote of a million and a quarter dollars from the House and was given it.

THE CHAIRMAN: They seemed to think they needed a good deal more than that from their representations.

MR. WALTERS: Well, we have progressed a long way from the "Little Red School House" and I suppose that costs money.

If I may, I would like to refer briefly to the cost of Ontario hospitals.





THE CHAIRMAN: Before continuing with that, Mr. Walters, these people also suggested that there should be a Dominion government grant, earmarked for education, but leaving it to the province to decide how it should be distributed as between the different educational organizations. It was contended that the municipalities could not afford to carry the costs of secondary schools.

MR. WALTERS: I do not think the principal is a very good one. I do not think the Dominion should contribute money for expenditures for something over which the

Dominion has no jurisdiction. The second point--I might have put it first--is that the on former occasions the Dominion government has contributed towards the cost of technical education. The Dominion government encouraged a city to develop this and then because of the Dominion's budgetary position, it was dropped. This left the municipalities or the provinces or both to carry it on as best they could.

THE CHAIRMAN: That was one of their arguments--the fact that the Dominion had made a grant for agricultural and technical education was one argument which they used in favour of the Dominion making a grant-in-aid which could be used to supplement the grant made for secondary education. This would help the municipalities to carry the load.

MR. WALTERS: The view of the government, sir, is that it does not require a grant for education from the Dominion government.

THE CHAIRMAN: That is all I wanted to know; I just wanted to get your view on the matter.

MR. WALTERS: The next table with which we deal is table number eighteen. I think I might properly say, sir, that the progress of an organized state is reflected in the care which it gives to its unfortunate sick people. This province has met the ever-increasing burden of caring





for the mentally afflicted portion of its population by a programme of building modern institutions. These will be in the nature of hospitals, not asylums. In these institutions, the patients can be segregated. Those who may look with hope or whose people may look forward with hope towards the patient being cured, released, and restored to the normal functions of life are segregated from the others. This province is even going further, and is classifying the patients with great care. At Brampton, the government is presently erecting a large, modern hospital to take care of the tuberculus patients.

(Page 7690 follows)



THE CHAIRMAN: How many would that accommodate Mr. Walters?

MR. WALTERS: The Premier who is greatly concerned about this, and has been a leader in this particular field of the Government, tells me there are about 600 being taken care of and these are tuberculosis patients, - mental cases, Of course, that is an increasing problem, and with the class of patients with which they have to deal infection is pretty hard to control, and it communicates itself to the nurses as well as to the inmates of the mental institution. At St. Thomas, in Elgin County, we are at present building the most modern hospital on the continent, and it will eventually cost probably \$8,000,000. We are building an institution at Brampton, and Port Arthur, because at Port Arthur there is a big population, a new settlement, and in order for friends and relatives to visit a patient in the old institution here, it entails a journey of approximately 1800 miles. At Penetang there are plans for additions, but the expense is going to be tremendous. Woodstock, for epileptic children, there is a big extension this year presently under way, and that presents a burden, - a prospective burden that I do not know how this province is going to deal with. I am reminded by the Hon. Premier that at the present time there is overcrowding in the hospitals. A third of the people there are not properly housed; some of them are sleeping on floors. Those who are what we might call Trustees, are being boarded out. And there is a tremendous back-log of a waiting list. Now, I think that this problem is common to all provinces.

THE CHAIRMAN: We have had it presented to us everywhere, It is one of the real difficulties before us.

MR. WALTERS: No doubt that is partly accounted for by the times in which we live, and the urbanization of the people, and then the sort of families who twenty-five or forty years ago would have concealed the fact that they had a relative in one of these institutions, are now "hospital-



minded" and as soon as they see one of their relatives acting queerly they have them examined, - quite rightly too, because if there is any chance of a cure those people should be cured. Then the municipalities are getting to be "institutionally-minded". In the old days when a chap worked around the livery stable, and he was queer, he had his job to do and nothing was said, but now they say that man ought to be in an institution, and away he goes.

THE CHAIRMAN: I am only asking this to get the views of the Government, because it was impressed upon us last week in a number of briefs, - there were three main items; unemployment relief, secondary education, and the cost of hospitalization, imposed such a burden upon real estate that it is retarding building and preventing recovery, and it's operating in many cases to confiscation of property by reason of the high rate of taxation; and they were pressing for relief. They were pressing that the Dominion should come to the assistance of the province, or it should be worked out by a superior Government. I would be glad if the Government could throw any light on the situation, and give us the benefit of their views on that problem.

MR. WALTERS: Well, I do not think there is any question about it, that the Government agrees with the submission of the municipalities; first, that real estate is over-taxed to pay for services which are not connected with real estate; and second, the Government agrees that something must be done for the municipalities to take over the burden on real estate; and the third, this Government, realizing its responsibility there and is anxious to do it, comes before this Commission and humbly submits that it could do these things if it were left to enjoy its own natural resources and to collect its own taxes, which are peculiarly appropriate to their field of taxation. So that there is no disagreement there, they have made their case and they are right.





THE CHAIRMAN: Mr. Walters, I notice in this table substantial reduction in the daily cost per patient. Is that due to more efficient management, or to what do you attribute that?

MR. WALTERS: It might be that the stay, the number of hospital days is shorter.

THE CHAIRMAN: The daily cost per patient is put down at 88¢ in 1936 as compared with \$1.13 in 1933.

MR. WALTERS: I do not think I would attempt an answer on that point, Mr. Chairman. May I say, Mr. Chairman, that there is no part of the particular function of Government that has engaged the attention or sympathy of the Premier as the care of the sick, and the unfortunates. The Premier is here, and perhaps, Mr. Premier, you would support me by making a statement on this hospital programme of the province; you could probably emphasize better than I can that the capital construction cost is only the initial cost.

HON. MR. HEPBURN: Mr. Chairman, I am happy to have this opportunity of saying a word on this very important subject. With regard to the question just raised with respect to the per capita cost, you will observe, Sir, that the number of staff is reduced, there is a considerable reduction in the administration costs, particularly in the head office, and a thorough check up was made to see that we get value on every dollar expended. I think the efficiency in administration has increased which probably contributes in some way to the per capita cost reduction. To go back, if I may digress, to our mental hospital programme, after a careful study we arrived at the conclusion we should take drastic action in order to deal with this serious problem, which is common throughout the whole world. Mr. Walters has referred to the fact we are building at St. Thomas an \$8,000,000. hospital and we are segregating the T.B. mental patients and a hospital is being constructed now at Brampton, and another



large hospital will be built at Port Arthur. But the irony of it is, after we have expended these millions of dollars, and provided additional hospital accommodation, we will only then be able to take care of the over-crowding in our existing hospitals. Some of them are really obsolete, some of the hospitals are now 60 or 70 years old, and it is a question whether it is worth while to fireproof them or modernize them.

THE CHAIRMAN: How many do you take care of at St. Thomas, and how many at Port Arthur?

HON. MR. HEPBURN: At Port Arthur we hope to be able to accommodate about 700 or 800. That will enable us to transfer that number of Northern Ontario patients from Southern Ontario Hospitals. At St. Thomas, according to present plans, - which of course can be changed to meet the situation, when we open the unit we will be able to accommodate 1500 bed patients. But we have made provision there by extending that into a much larger unit, However to-day the situation is not so bright in so far as the future is concerned. From a study of world conditions with respect to mental treatment, I understand of five patients who go in for treatment, only three are cured, leaving an ever-increasing population in our mental institutions.

The other great problem which is causing the Treasury Department considerable concern is that dealing with the spread of tuberculosis. While statistics show that there are fewer people dying of tuberculosis the fact still remains, in our judgment, the disease is on the increase. You will find of those people who die less than 50% receive any hospital treatment at all. We know that T.B. can be cured if treated in the initial stages. The reason the Government has changed the whole system whereby now we assume the entire cost, formerly borne by the municipality as far as indigent patients are concerned, is because there was a re-





luctance on the part of municipal officials to sign the necessary commitment papers. Some years ago the former Minister of Health, Dr. Robb, decided to experiment by setting up what he called a "travelling clinic". This clinic was made up of technicians, ex-ray specialists, and skilled medical men, and it was sent around to examine people who were suspected of suffering from tuberculosis. The result was that we found innumerable cases, As you know, Mr. Chairman, tuberculosis is highly communicable, and in many instances where our official recommended immediate hospitalization the Reeve or some other official would refuse to sign the commitment papers, with the result that when the clinic went back a year later it was found that particular patient was beyond the point where any cure could be effected. I could cite innumerable cases where we found as many as four or five members of a family infected on a second examination. So we enlarged upon that venture, believing that it was good economy for the province to stamp out T.B. at its inception, - to spend more in preventive and curative measures, so that we have now four or five travelling clinics and we have put them in areas where we know the death rate is high, and when we find a case of tuberculosis we send them to a hospital, and there is no reluctance on the part of the municipal officials because we assume the entire cost. I cannot say how much additional expense that will incur; the estimate is around \$2,000,000 for this year, but I am satisfied, Mr. Chairman, that after our officials have had a free hand that the number of patients going into our Sanatoria will be increased as the years go on, and there will be a peak reached, we hope, and from then on there will be some relief. But this year, anticipating we would put more patients in our Sanatoria we gave to the various Sanatoria in Ontario grants totalling \$750,000. Now, we are not giving away our money promiscuously, we are doing it by





arrangement. For example, in the big hospital at London, which is one of the most efficient in Ontario, they undertook to raise two-thirds of the \$200,000. to be expended; the same with respect to Windsor, and Weston and Hamilton. But we did deal a little more generously down in Eastern Ontario where we assisted to the extent of well over 50% in the construction of a hospital near Cornwall, where the death rate is probably the highest in any point in the Province of Ontario. We also dealt very generously with Fort William, where there was great need. But the Sanatoria to-day are still crowded notwithstanding that additional bed accommodation is being provided. So I say there is going to be an ever-increasing demand for money for that particular work. We are not objecting to doing this work, believing that the health of the nation is of paramount importance, but I am pointing out, Mr. Chairman, that in undertaking this work we are incurring tremendous additional expenses in Government.

As you will observe, we have now a pasteurization law for Ontario. It is rather an analogy that at this stage of civilization such a measure as that should be delayed for such a length of time. The medical adviser to the Government informs us that in those areas where there has been pasteurized milk sold for years we find no tuberculosis, but most of the children who are to-day being treated in the Sanatoria and The Sick Children's Hospital are children who have contracted tuberculosis from consuming raw milk sold outside of the City, so that we are going to make the application of the pasteurization law province wide. We hope in that way to relieve the pressure. I am of the opinion Mr. Chairman, that we are going to find that there are innumerable cases, which some of the medical men have told me are pitiable. For instance, in one family two years ago one of the older members was found to have T.B. disease,



and we could not persuade this man to go to the hospital. Then we found four of his children had contracted the disease within two years. The oldest one was about to die, there was no hope in that case, but we got the other three into the Sanatoria. Now, if people would only realize that tuberculosis, like smallpox, is a highly communicable disease, they would take a great interest in the work we are undertaking at the present time.

The Comptroller of Finance has told you about the tuberculosis-mental hospital at Brampton now under construction. I am not sure of my figures because I did not intend to take any part in this discussion, and I know it has been so well handled by Mr. Walters, but I believe there are 44 nurses who are now receiving treatment for tuberculosis, and all of those nurses contracted that dreaded disease because of the lack of accommodation in our hospitals, - not only the nurses, but attendants as well. So that we have decided to segregate the tuberculosis patients and build a hospital more particularly to the needs of a Sanatoria than of a mental institution.

I believe Ontario is the only Province in the Dominion that is handling relief cases in the way that we are, - I believe the Hon. Mr. Cross will bear me out, - we pay the Doctors on a per capita basis, and in that way we are sure every relief recipient is going to receive proper medical attention. We made that arrangement with the Medical Association of the Province, and it has worked out satisfactorily in every particular. But again, that is one of those cases where we assume greater social service responsibility and incur additional expenses.

THE CHAIRMAN: Thank you, Mr. Hepburn, there is no doubt of the great importance and value of this work. No doubt it is beneficial to the health and welfare of the people of the Province.





MR. WALTERS: If I may pass to the next table, table 22, Mothers' Allowances.

THE CHAIRMAN: There is nothing in 19, 20 or 21 you wish to draw our attention to.

MR. WALTERS: Mr. Chairman, the Hon. Mr. Cross, the Minister of Welfare, who administers this Act, and also the Old Age Pensions' Act, has a document which I think should be filed at this time.

HON. MR. CROSS: Mr. Chairman, arising out of the discussion the other day, there was a question raised by Prof. MacKay as to the scale of pensions being paid in the Province of Ontario, and I think it would be well if we laid before the Commission the regulations of the Old Age Pensions Commission and the Mothers' Allowance Commission. They have just been recently revised and amended; the Old Age Pensions regulations were revised after an interprovincial conference which was held with respect to the matter in Ottawa in November last, And the question raised specifically by Prof. MacKay was as to the amount of pension payable, and the specific regulation dealing with the matter reads as follows, with the qualification of the Dominion Old Age Pensions Act, under which a person may become eligible for a pension. They must be a British Subject, and of the age of 70, and there are certain requirements as to residence, and then the income regulation reads: "Is not in receipt of income which together with the maximum pension, exceeds \$365, a year." In other words, Prof. MacKay and Commissioners, that permits a permissible earning of \$125. a year, and the pension of \$20. a month brings that up to \$365. If the earnings exceed \$125. per year, then the pension is reduced by the amount that it may exceed that total, so that the total income of the pensioner does not exceed \$365. per year.

Then in regard to allowances paid under the Mothers' Allowances, the rate, which generally prevails is \$35.00 per





month for a mother with one child, in a City over 10,000 population, - \$25.00 per month in towns over 5,000 population, and \$20.00 in rural areas. That is subject to an increase of \$5.00 for each additional child.

THE CHAIRMAN: Then the mother with three children in the rural section would get \$30.00 per month?

HON. MR. CROSS: Yes, that is correct. I think perhaps in view of your inquiry it may be well to file these regulations.

THE CHAIRMAN: Yes, we would be glad to have them. It will be Exhibit No. 306.

EXHIBIT NO. 306: Regulations Governing  
payment of Old Age  
Pensions and Mothers'  
Allowances.

THE CHAIRMAN: Mr. Hepburn, there is a question I was going to ask; I am not sure I have not asked it be included in some questions we are submitting, but this appears to be a proper time to mention it. It has been urged upon us in a number of briefs - I speak subject to correction, I think the Manufacturers' Association and several boards of trade briefs - that instead of our old age pensions we should have a contributory "all-in" pension system. It was stated in some of these briefs that while a number of countries had started old age pensions such as we have them with two or three exceptions they had all now turned to an "all-in" pension system, on a contributory basis. Have you given the matter any consideration? You need not answer it now, Mr. Hepburn.

HON. MR. HEPBURN: Well, Mr. Chairman, I believe in the contributory system, whether it applies to unemployment insurance or old age pensions. I might say I am well versed in this subject, and I do know that there are many abuses; it seems to be the considered policy of many old people to give their property away and apply for old age pension. There is no thought of thrift, and many abuses are creeping in. I believe



there is a great deal of merit in that suggestion, that we change to some contributory system, and I believe that opinion will be shared by all my colleagues, although we have not discussed the matter.

THE CHAIRMAN: I was astonished at the figures given yesterday by Mr. Walters, that in some of the provinces 50% or more of the people over 70 years of age were old age pensioners.

MR. WALTERS: In Alberta I think it is 54.

THE CHAIRMAN: There were two provinces as I recall it, over 50%, and even in the Provinces with the lower figures the percentage was very high.

HON. MR. HEPBURN: And increasing as the years go on.

THE CHAIRMAN: It is incredible that there could be such a large percentage of the population in this country of that age who are absolutely without resources and require old age pensions.

HON. MR. HEPBURN: As I said, I am aware of the situation, and many old people have transferred their property in order to qualify as old age pensioners. That is the abuse which is creeping in.

THE CHAIRMAN: Is the Mothers' Allowance plan working out satisfactorily?

HON. MR. CROSS: Yes, I think it is, Mr. Chairman. I might just say here, although mention is made of it later on, that the Province assumed the entire cost of the Mothers' Allowance last year, and relieved the municipalities of a considerable burden in that respect. We have found that improved our methods of administration both with respect to Old Age Pensions and Mothers' Allowances. Now, every person who is in receipt of either an old age pension or a Mothers' Allowance is covered by an inspection report; once a year there is a call made on the recipient and their financial circumstances are reviewed and a report is made direct to the





Old Age Pension Commission and the Mothers' Allowance Commission in Toronto, and in that way we have had a much more effective check on some of the abuses which the Prime Minister referred to a moment ago. But in the main, we have not had the difficulties with respect to abuse as far as the Mothers' Allowances are concerned, - there is little evidence of that, certainly not comparable with what is encountered in the administration of old age pensions.

THE CHAIRMAN: Mr. Cross, what is the condition upon which a Mother gets the allowance, - what is the means test?

HON. MR. CROSS: It is based on actual need. We have to examine her circumstances. If she has, for example, an estate which has been bequeathed to her, of over \$3000.00, then she cannot receive a mother's allowance. That is graded to lesser amounts in the smaller municipalities. I have not the figures at the moment, but that is the general test which applies. Then if there are any earnings in the home, where it is a mother with one child, those earnings have to be taken into consideration, and perhaps if the child requires a special diet, that is an element which also has to be considered. But we have, as you are aware, set up local boards in each county and in each city, composed of Appointees of the Government and Appointees of the Municipality, who we feel are familiar with the local requirements in that municipality, and the standards of living which exist there, and have also, as a rule, personal knowledge or an opportunity for personal knowledge of the applicant's position, and they review all applications in the first instance.

THE CHAIRMAN: When was the Ontario Mothers' Allowance Act enacted, Mr. Cross?

HON. MR. CROSS: I think it was 1919, if I am not mistaken, or 1920.

THE CHAIRMAN: What did these mothers do before the Act was put into operation?





HON. MR. CROSS: Well, that is a very difficult question to answer. They were probably cared for by their relatives. The point was mentioned the other day as to the increasing demands upon the governments to assume obligations of this kind, and as those obligations have been assumed the old private methods of supporting people who are now receiving social benefits of various kinds have diminished.

THE CHAIRMAN: We were told by the Chairman of the Ontario School Trustees' Association that the schools had a much greater burden put upon them, of training the children while the fathers played golf and the mothers played bridge.

HON. MR. HEPBURN: Mr. Chairman, may I make an observation here, to say that this increasing cost is offset by some measure of relief in so far as the municipalities are concerned. You will observe, Mr. Chairman, table 22, the number of beneficiaries total 41,531, in this year; the number of children 29,124 as compared with a total of 10,931 beneficiaries in 1920, and 8,271 children. The cost in dollars is shown at \$5,141,800 for this year, all of which, of course, is borne by the province, as compared with \$851,659 in 1921, showing a tremendous increase. But that is offset in some regards by the closing up of many of our childrens' shelters, the cost of which had been largely borne by the municipalities. In Elgin County my grandfather was very interested in social work of this kind, and he left some money to assist in the building of a childrens' shelter, which was operated very efficiently but they could not get any children population because the children who ordinarily would be placed in there were taken care of under the provisions of the Mothers' Allowance Act. Only the other day the Minister of Welfare and I had to make a decision with regard to a very large bequest, made by a gentleman who was also interested in this work, and he stipulated some kind of shelter should be built to take care of children, when he



made his ~~will~~ eight or nine years ago there was an increasing need for buildings of that kind. But we pointed out to him that the existing orphanages were being closed up so that there was no need to build institutions of that kind. So that this cost, while it is being met directly by the province, is indirectly of great benefit to the municipalities. May I ask the Minister of Welfare to show how many shelters were closed recently.

HON. MR. CROSS: We closed sixteen during the course of the past few years.

COMMISSIONER MacKAY: Does the same apply to the County Home for the Aged?

HON. MR. CROSS: No, that is on a different basis. But there was a total of some 51 shelters throughout the province, sixteen of which have been closed, and those that are operating are operating with a diminished population.

COMMISSIONER MacKAY: The Old Age Pension Act has not had the same effect upon Homes for the Aged?

HON. MR. CROSS: No. There are many old age pensioners who are housed in such institutions, but they make a contribution to pay for their support. The province does not make any contribution to the support of old age pensioners in houses of refuge.

COMMISSIONER MacKAY: It must have reduced the cost to the municipalities to some extent.

HON. MR. CROSS: Yes, it would.

MR. LANG: That completes the subject, Mr. Chairman, of social services. I think the Hon. Mr. Cross might go on with the unemployment relief, subject to your approval.

THE CHAIRMAN: Yes, thank you.

HON. MR. CROSS: On page 70, Mr. Chairman, and gentlemen of the Commission:

"As to the general problem of Unemployment Relief and its administration, the Province does not deem it





"necessary to deal with the matter at any length in view of the comprehensive study and report of the National Employment Commission which has been submitted to the Federal Government.

The Province, however, is drawing the attention of this Commission to the financial aspect of the problem and is setting forth in Appendix form the statistics showing the financial burden of Unemployment Relief upon the Province of Ontario and its municipalities from 1930 to 1937. This table shows that the staggering burden of \$118,400,000 has been carried by Provincial and Municipal Governments during this period.

The numbers on relief reached a peak in March, 1933 of 485,949, as compared with 434,170 in March, 1934; 418,141 in March, 1935; 433,262 in March, 1936; 334,863 in March, 1937; and 274,389 in March, 1938."

Mr. Chairman, if you will, I will refer to the table just a little later, after we have read this brief summary, if there is any additional information/<sup>required</sup>as to the actual figures of persons on relief and the relative burdens of provincial and municipal government.

"The Province's share during this period amounted to \$78,052,000, and a large part of this was funded up to 1935. During the fiscal years 1936-1937 and 1937-1938 the Province has carried its share of the burden out of current revenues.

The municipalities' share during the period 1930 to 1937 amounted to \$40,358,000. The Dominion paid over the same period, in the form of Grants-in-aid to the Province, the sum of \$52,968,000, or 30.91% as compared with the Province's share 45.54% and the municipalities' share 23.55%. The burden of carrying relief costs has been an extremely onerous one upon





"the taxpayers of the Province, and upon municipal taxpayers as well.

The report of the National Employment Commission, among other features, recommends that a segregation as to classification be made of the employables from the unemployables, and that the Dominion assume extended responsibility in administration for the employable class. The Province, therefore, is unable to express any view as to this administrative side of the problem until the decision of the Federal Government is known as to what extent it proposes to implement these and other recommendations of the report."

I might just refer you to the tables which deal with the financial burden of unemployment, which are tables 25 and 26, in part 3, You will note from table 25 that in 1930 the total cost for the province was only \$265,000. In 1931 it had mounted to \$3,927,000, and from there there is a leap in 1932 to \$15,000,000, in 1933 \$28,000,000, 1934 \$33,000,000, and 1935 it reached a peak of \$36,000,000. In 1936 \$30,000,000 and in 1937 \$22,000,000. The percentages are also given as to the percentage of contribution from the Dominion to the Province and the municipal share is given as well. I have also given you the averages for the whole period, and during the period 1930 to 1934 you will notice the Dominion contribution was 34%, 33%, 35%, 36% in 1933, and there was a decline in 1934 to 31%. In 1937 it was 31% and I might just say here that the Dominion Grants during January, February and March of this year have brought their percentage of contribution for that period down to in the neighborhood of 22%. Now, one of the points that was made in the Report of the Purvis Commission was the rather unsatisfactory state of affairs that prevailed between the Province and the Dominion with respect to the de-



termining of the Grants-in-aid. That has been a very serious objection on our part to the method employed by the Federal Government, and we have made, as a Government, very strong representations to that Government, and have been supported by the Ontario Mayors' Association of the Province. The difficulty we are faced with is this, Mr. Chairman; that the Province, of course, has to set its budget for the fiscal year during February, and that budget is brought down in March. The municipalities have to do likewise, they have to fix their budgets during March and April, and we are not advised by the Federal Government as to what Grant-in-aid they propose to make throughout the whole year. For example, while we had an agreement with Ottawa for the past three months, we have no agreement at the present time. We have no knowledge, no formal communication from Ottawa as to what their Grant-in-Aid will be for the three months, nor for the rest of the period of the year. You can appreciate readily the budgetary difficulties that that presents to the province and to the municipalities, when we have no advice as to the amount of Grant-in-aid we may expect for our calendar year or fiscal year.

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THE CHAIRMAN: Does that raise an even larger question of the difficulty, where two or three governments are contributing to a common cause, of adjusting the amounts of the contributions?

HON. MR. CROSS: Yes, it most certainly raises the question. We have been able to arrive at a fairly workable understanding as far as Old Age Pensions, which were on a straight contributory percentage basis. But certainly the arrangement which exists now as far as the province and the municipalities are concerned is peculiar from the budgetary position.

THE CHAIRMAN: What alternative would you suggest?

HON. MR. CROSS: Well, Mr. Chairman, we have made the suggestion generally in this brief that the province might be able to assume a larger share of those expenditures if we were given the revenues with which we were originally expected to maintain them. Mr. Walters was dealing with that position this morning and that is one submission that we have made to this Commission with respect to the question you have raised.

THE CHAIRMAN: The only difficulty I see there is the one I pointed out to Mr. Walters. While I can see how Ontario might do it on the figures given us, in reference to some of the provinces it would not appear possible that they could handle their own unemployment relief unaided, even if they had all the income tax collected within the province.

HON. MR. CROSS: That may be, Mr. Chairman, but it does not affect, I submit, the point that I was pressing that we should be able to have some definite understanding with the Dominion Government with respect to a whole fiscal year, in order that both we and our municipalities might strike our budgets accordingly.





THE CHAIRMAN: No, I quite appreciate that point. I was just thinking if it did not open up a larger question. One of the questions which is submitted to us for consideration under the order of reference is the question of subsidies and grants-in-aid, and we have to report on that question. Do subsidies and grants-in-aid constitute the best method whereby the Dominion can supplement the revenues of the province, or is there some other method that is better?

HON. MR.CROSS: I might just draw to your attention there, Mr.Chairman, with respect to this problem, the recommendations of the Purvis Report upon unemployment, wherein they suggest the Dominion should assume a greater responsibility with respect to the employable class, leaving to the provinces and the municipalities the unemployable class.

THE CHAIRMAN: But they pass on to us the responsibility of saying what should be the financial adjustments incidental to such an arrangement. You remember that in their report?

HON. MR.CROSS: It may be that the financial arrangements should follow that division. The difficulty with respect to determining that, if from an administrative point of view that is a sound method of dealing with the problem, you cannot perhaps arrive yet at what the financial implications of that may be, because we do not know with any accuracy what the division of the two classes may be, as to how many persons are employable and how many persons are unemployable.

THE CHAIRMAN: The Purvis Report makes a general classification, does it not, Mr.Cross?

HON. MR.CROSS: Yes, it does make a general classification, but the actual statistics upon which



the classification is made, when the classification is applied, there is not there any accurate statistics assembled as to the division of the two classes. They did gather information from the various municipalities from September to December, but I am very far from sure of the accuracy of the information which they received. And it would only be on a much more intense classification method than we have at present that we could arrive at the true picture.

THE CHAIRMAN: Suppose, Mr. Cross, the division were, as you have suggested, the Dominion took care of the employable and the province the unemployable, there would be great temptation, would there not, to push men from one class into another?

HON. MR. CROSS: Yes, that would inevitably follow. We have that problem already existing in the administration of social services, in the attempt, for example, of municipalities to throw people who are on relief into the classification of mothers' allowances because we are paying the entire cost. We have met that difficulty and it would be an administrative side of the problem which would have to be faced.

I am quite frank to confess as far as the Government is concerned we have given no consideration generally to what might be the outcome of the Purvis report until statistics were available, until we saw to what extent the federal government was going to take action with respect to that report.

THE CHAIRMAN: Mr. Cross, could you help us on this point, the question of administration of the unemployment relief, At present it is administered in the local municipalities with a measure of provincial supervision, is it?

HON. MR. CROSS: It is administered wholly locally



with the government supervision extending to the amounts of the grants-in-aid that are made to the municipalities. Our inspectors cover the districts from time to time and approve of their monthly accounts. At the beginning of the year the department fixes the grant-in-aid to the municipality and apportions it on a monthly basis, and the accounts are checked by our inspector. But the local administration is entirely a municipal one. It has been found, I think, and demonstrated that unless the municipalities have some substantial responsibility with respect to the problem we cannot get an effective and efficient administration. In other words, where you have every taxpayer who is in a position of policing his own municipality with respect to relief abuses, you get the best administration. And that is borne out by the fact that throughout the province in the rural sections and in smaller villages, relief has been extremely well administered on the whole and costs have been kept down to much greater extent for that reason. It follows from that, that there have been tendencies, from the sections where relief is well administered, for those who seek to abuse the relief administration, they are apt to flow into the larger centres where administration is perhaps more lax and where the difficulties of administration are much greater.

COMMISSIONER DAFOE: That pressure of local opinion on the administration of relief diminishes with the size of the municipality? I mean the population. And we have had representations by people that at a certain point it becomes a handicap, it is administered less economically than it would be by a more distant administration. We have had that representation put to us by representatives



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of some of the Canadian cities.

HON. MR. CROSS: Our experience is quite the reverse in Ontario, that we have the best administration of relief in the rural areas and smaller towns and villages and that the difficulties of administration increase with urban population.

COMMISSIONER DAFOE: That is the point I was trying to make.

HON. MR. CROSS: I am sorry, I misunderstood you.

THE CHAIRMAN: Representations have also been made, I recall the mayors of three cities now to whom I put this question: I said "Could relief be more efficiently and economically administered by your own local municipality or by a central or provincial government?" And three at least said "By a provincial or federal government." When I asked why, they said the pressure upon the local council is so great, with the large number of unemployed, that it is difficult at times to resist the pressure and these mayors believe it would be better to have the relief handled by a central authority, whether that central authority be the province or the Dominion, through a local committee appointed by the central government to supervise it. Some other authorities expressed a different view. They thought the local unit could handle it best. Could you, from your experience, help us on that point?

HON. MR. CROSS: Well, Mr. Chairman, all I would observe with respect to that is that our experience is as I have indicated it with respect to our rural communities and the smaller towns and villages of the province. I think there is some merit in your suggestion with respect to the administration of relief in larger centres.



THE CHAIRMAN: Of course there is where the principal relief is, and there is where the greatest difficulty is. Those who presented that view were mayors of large cities: The mayor of Toronto, the mayor of Montreal, the mayor of Calgary, - several mayors have presented that view to us.

COMMISSIONER DAFOE: Alderman Honeyman of Winnipeg was quite emphatic in his view.

COMMISSIONER MacKAY: Would it be fair to say that the difficulty of economically administering by municipal units increases with the proportion on relief?

HON. MR.CROSS: No, I do not think that follows at all.

COMMISSIONER MacKAY: One question if I may ask it here. Perhaps you would rather not answer it, and if not certainly say no. Do you think the present municipal unit is an efficient unit for the administration of social service or might it be better that in many cases the municipal units be grouped together, say for instance, a metropolitan area, rather than a city and its outlying municipalities?

HON. MR.CROSS: Have you reference to any particular social service?

COMMISSIONER MacKAY: I am thinking particularly of relief. I should have said relief.

HON.MR.CROSS: It has been our experience, I might say, that in the smaller communities where everyone knows those that are on relief that we got good administration and we have had no complaints in that direction. Whether some larger unit should be established with respect to the larger centres of population perhaps is a matter of policy which the government might consider at some time. We have generally maintained the status quo with respect



to relief policy this year in Ontario until we saw what might be forthcoming from the Purvis Commission.

THE CHAIRMAN: We will probably have to make some recommendation in connection with unemployment relief, where the responsibility for administration and finance should rest, and we would be glad of any help you can give us, if your government, Mr. Hepburn, could give it some consideration. The question is whether, having regard to the fact that the greater part of relief is found in the large centres of population, it can be better handled through the local municipal unit or better handled by a central authority, whether it be Dominion or Provincial, acting of course through local organizations.

HON. MR. CROSS: I might point out here that I am advised by Mr. Gray, who had to do with the administration of relief in our supervised municipalities, that the municipalities which were in default and where the department had an active control of all matters of administration, that in the municipalities where we had control there was considerable agitation and interference by the local council, even under those circumstances, which resulted in increased costs. Curiously enough in municipalities where the province did have a direct control of the supervision, the experience of decreasing costs did not flow as you might have anticipated, the reverse was the experience.

THE CHAIRMAN: You mean that local influence was brought to bear on the supervisor?

HON. MR. CROSS: Well, the councils, they were quite willing there to have everyone on relief, and the difficulty of the supervisor in obtaining the knowledge of local conditions, certainly, with the experience we had,





did not indicate that we were going to effect any savings in that respect.

THE CHAIRMAN: Of course that was where you had divided responsibility, you had the local council acting with the supervisor?

HON. MR.CROSS: The council of the municipality was in effect without real authority, the whole control was vested with the department and the department's supervisors. I might just say there too, Mr.Chairman, that in many of the supervised municipalities the province was contributing more than it did to other municipalities. For example, in the city of Windsor I think we contributed as high as 90% at one time. And where you have the municipality only contributing 10% of the actual cost of the administration of relief the same effectiveness of administration does not follow and that was our experience generally I think with respect to supervised municipalities, which by reason of their financial difficulties, the province had to increase its grants up to as high as 90%, that the difficulties of administration increased as the municipality's share decreased.

THE CHAIRMAN: Quite, as their interest diminished their care in administration lessened.

HON. MR.CROSS: Yes, that is correct.

HON. MR.HEPBURN: They all combined against us, the merchants, relief administrators and everyone else.

THE CHAIRMAN: There is one further question on this very interesting problem. It was presented to us by many mayors, not only presented in this province, but presented in other provinces as well, that one of the practical problems of municipal administration, one of the greatest difficulties of municipal administration,



and they did not limit this to unemployment relief, but social services, although unemployment was the main one, was the fact that so large a percentage of the total voting population paid no taxes, were therefore not interested in the question of the tax rate. I think we had figures given us in one city where perhaps three to one of the population did not make any contribution to taxes. These representatives strongly stressed the importance, if you would have efficient and economical municipal government, of having each citizen, who had the ability to pay taxes, contribute in some form to the cost of municipal government, so as to give him a real interest in it and in its economical and efficient administration.

HON. MR. CROSS: I might say, Mr. Chairman, there is much force in what you have said but I would not care to express any opinion upon the matter without consulting my colleagues. The representations that have been made to you have been made from time to time to the government but it has not been decided to take any definite action with respect thereto.

THE CHAIRMAN: I suppose it is easier to give the vote than it is to impose the tax, generally speaking. However, it is a problem that is becoming quite acute in some cities where the great majority of the population do not pay any taxes and consequently are not interested directly in keeping down the tax rate or the debt.

HON. MR. CROSS: Yes, Mr. Chairman. I might observe there we have had municipalities in the province where the entire council was on relief, including the mayor, and you can appreciate the difficulties that that would create.



THE CHAIRMAN: I heard that in one provincial legislature there was a suggestion that if the members had not been in the legislature they would have been on relief. Thank you very much, Mr. Cross.

HON. MR. CROSS: Then, Mr. Chairman, if I might, I would proceed with the problems of the municipalities, on page 77. We have, to some extent, sir, covered these in the discussions that have just preceded.

"It is to be noted, in reviewing the history of municipal government in Ontario from 1913 to the present time, that municipal budgets have increased in the aggregate for the Province from \$34,250,000 in 1913, and \$102,146,200 in 1926, to \$117,887,933 in 1936.

During the same period, aggregate assessments have increased from \$1,727,234,000 in 1913, and \$2,806,911,000 in 1926, to \$2,919,359,401 in 1936.

Tax arrears during 1934 reached a figure of \$58,188,000, in 1935 \$53,757,000, and in 1936 \$47,428,000".

THE CHAIRMAN: Those figures are the arrears for that particular year?

HON. MR. CROSS: No, Mr. Chairman, they are the accumulated arrears.

"It is self-evident that the burden of taxation imposed upon real estate has increased enormously during this period. This increase has been due to additional burdens for social services by way of hospitalization and unemployment relief, mothers' allowances and old age pensions, which costs have fallen upon real property owners. The result has been that tax collections have fallen off in a marked way throughout Ontario, and so acute did this condition become in certain areas





that municipalities were forced to default upon their debt obligations. Thirty-four municipalities defaulted in Ontario from 1930 to 1938, amounting to \$103,000,000 of debt."

That percentage, Mr. Chairman, would represent approximately 20% of the total debenture debt of the province. And that was a very serious condition with which the province had to deal.

"In 1935 the Provincial Government took steps to deal with the problem of municipal default and took measures exercising a greater control and supervision of municipal government. Control of capital expenditure was vested in the Municipal Board by section 89 of 'The Ontario Municipal Board Act' (now R.S.O. 1937, Chapter 60, Section 70) which provides that notwithstanding the provision of any general or special Act a municipality shall not exercise any of its powers to proceed with, authorize or provide any moneys for any undertaking, work, project, scheme, act, matter or thing, the cost or any portion of the cost of which is or is intended or required to be provided or raised by the issue of debentures of the municipality, until the approval of the Board has first been obtained."

THE CHAIRMAN: That applies to all municipalities?

HON. MR. CROSS: All organized municipalities in the province.

THE CHAIRMAN: Thank you.

HON. MR. CROSS: "Under this section no municipality in the Province can undertake a program involving expenditures where it would be financed by issue of debentures unless the approval of the Ontario



Municipal Board has first been obtained.

Those provisions have acted as a brake on capital expending, which shows there has been a reduction in the municipal debt of the Province of Ontario from \$483,952,700 at the end of 1934 to \$431,546,483 at the end of 1936."

Of course Mr. Chairman, it is impossible to determine to what extent these provisions have acted as a brake, and to what extent they have played a part in forcing some reduction. I do know from my experience that these provisions acted in two ways: They have acted in many applications being refused from time to time by the Board, and have also prevented, I am convinced, many applications from coming to a head by reason of the fact that they had to pass the scrutiny of the board.

THE CHAIRMAN: Mr. Cross, for how long were you Chairman of the Ontario Municipal Board?

HON. MR. CROSS: I was chairman of the Ontario Municipal Board from May, 1935, until September of 1937.

THE CHAIRMAN: And would you mind telling us, because this question has been raised in other provinces, how to guard against municipal over-indebtedness? Upon what principle did you act in determining whether a municipality should be granted leave or not?

HON. MR. CROSS: Well, Mr. Chairman, you had to consider each particular municipality with reference to its past history, with reference to the general industrial conditions in that particular area and where their tax arrears were mounting, let us say, above a certain period, then you very definitely said that capital expenditures would not be permitted until the municipality showed a better position with respect to its current finances. That in recent years has been the surest test I think of a municipality's position, because the ability



to provide money for debentures and other services is almost immediately reflected in the tax arrears picture.

THE CHAIRMAN: I am told in England where there can be no borrowing, I think, without the consent of the local government board or some government body, default by a municipality is unknown.

HON. MR. CROSS: It is unknown in Ontario, Mr. Chairman, since we have had this legislation, for all practical purposes, and I hope that result can be maintained.

THE CHAIRMAN: You had a good many to start with!

HON. MR. CROSS: Yes, we did.

THE CHAIRMAN: They are being cleared up though?

HON. MR. CROSS: They have been cleared up and there is this control which I feel confident will prevent the recurrence of a similar situation in the future unless there is some local economic disaster of some kind that cannot be foreseen.

THE CHAIRMAN: Yes. The board would not grant leave for a capital expenditure unless the board was satisfied, from the statement of the municipality, that not only there was need of the capital expenditure but there was good ground for believing that it could meet its obligations, after the necessary sinking fund.

HON. MR. CROSS: Yes, that is correct, Mr. Chairman.

COMMISSIONER MacKAY: Have you any control over the sinking funds of municipalities?

HON. MR. CROSS: You mean as to investment?

COMMISSIONER MacKAY: Yes.

HON. MR. CROSS: No, that is left to the municipality. There have been certain cases, I know of one municipality in the province, where the board found that their sinking fund had been improperly handled, when they made an application for a debenture issue, and the board in that





case insisted that they obtain special legislation setting up a board of trustees who could handle the sinking fund, taking it out of the control of the municipal treasurer. But there has been no general policy with respect to the control of sinking funds. They are in the hands of the local municipal treasurer.

I might just observe there, that the practice of issuing sinking fund debentures is rapidly on the decline in the province. By far the great percentage of municipal debentures are issued on the installment basis now. I think that is generally true. And there is provision that the consent of the board now is required where a municipality wants to issue sinking fund debentures. They have to come to the board and obtain approval to issue debentures of that type. At that time the board would scrutinize the condition of the sinking fund before any additional debentures of that type are issued. There are some peculiar cases where sinking fund debentures perhaps are advisable and can be justified. But in the main the experience with sinking funds over a period of years indicates to me that the much safer way for municipalities is to issue and do their financing with the installment type of debentures.

THE CHAIRMAN: What is the general limit of installment debentures? I suppose it depends on the nature of the public work?

HON. MR. CROSS: Yes, it would vary from ten to twenty and thirty years, and depend to some extent on the locality. For example, it has been the practice in Northern Ontario in the case of mining towns to limit them to a ten year period. Generally in Ontario there is a different period of debentures for the type of work.

THE CHAIRMAN: In the case of some of the Northern



Ontario debentures, they have been guaranteed by the provincial government. Is that practice still going on?

HON. MR. CROSS: No, Mr. Chairman, that practice has been discontinued.

MR. WALTERS: Fortunately.

HON. MR. CROSS: Then, Mr. Chairman, if I might proceed;

THE CHAIRMAN: Yes, if you please.

HON. MR. CROSS: "In 1915 the Department of Municipal Affairs was created, which was given the power of direct supervision and control of municipalities in default and charged with the task of improving generally the methods and standards of municipal government. Under the supervision of the department the position of supervised municipalities has improved and refunding plans have been accomplished in eight municipalities, representing a total debt of \$56,000,000".

That, Mr. Chairman, is \$56,000,000 out of the total of \$103,000,000 which was mentioned on the previous page as being the total debt in default.

THE CHAIRMAN: You got about as near to 50% as you could?

HON. MR. CROSS: Yes, Mr. Chairman.

"The Department has a trained staff of municipal officials expert in their various phases of municipal administration, and through their guidance and assistance the standards of municipal government are being improved and extended throughout the Province."

I might just observe there, that I think some comment was made by Dr. Brittain the other day with respect to what steps were being taken in the province to improve municipal administration and efficiency. I think the Department has taken very definite steps in



that direction. We have established throughout the province at the University of Toronto, and western Ontario, and at Kingston, schools for municipal officials which are held at different times throughout the year. The municipal treasurers and clerks and councillors are invited to these schools. A course of lecture is furnished to them by experts in accounting, assessment and all the problems that confront municipal administration. That has been a forward step we feel with respect to acquainting particularly municipal officials in the smaller centres of the province in the best advice we can furnish them as to the methods of administration.

THE CHAIRMAN: When were those courses established?

HON. MR. CROSS: They were established shortly after the department came into existence in 1935. One was just concluded last week at the University of Toronto. We had about 150 in attendance there from various parts of the province.

THE CHAIRMAN: Is the attendance increasing?

HON. MR. CROSS: It is increasing. I might say in 1936 we had 90 in attendance at the University of Toronto, in 1937 64, and 1938 158. At the University of Western Ontario last October we had 124.

Further work has been done by reason of the fact that the Department has experts continually throughout the year and they are in constant consultation with the municipal officials throughout the province. Delegations are coming to and from Toronto, and our officials are going out to assist them in many of their difficulties. I think the standard of municipal administration has been very definitely improved over the last two years by reason of the department's creation.





THE CHAIRMAN: You are well satisfied with the results of these courses, are you?

HON. MR. CROSS: Yes, Mr. Chairman. Whether it may lead to definite standards being eventually established with respect to the qualifications of clerks and treasurers I am not prepared to say but it is tending in that direction.

Then, if I might continue:

"Due to the control of capital expenditures being vested in the Ontario Municipal Board and the general supervision of the Department of Municipal Affairs, no further defaults have occurred during 1936 and 1937, and the Province may take credit for the energetic measures to deal with the alarming picture that had developed in 1934."

I might just observe there, Mr. Chairman, that when I was on the Municipal Board there were occasions when we became concerned with the conditions of a municipality which, if there had been no supervision or no advice given to them, default would have ensued. I can think of two or three municipalities in that respect. And by sending in officials of the department we were able to avert what would have inevitably followed had the municipality pursued the course that it had ahead of it. That, I think, is also a preventative measure in the future, that by the municipal Board controlling capital expenditures, and the department being interested in the current phase of administration, if difficulties are ahead of a municipality, that steps can be taken to correct any difficulties that lie ahead and avert an occurrence of the very alarming picture that we had in 1934.



I can file with the Commission, and I think it might be useful for them to have it as a matter of record, the various municipalities in the province that went into default, the date that default occurred, the nature and amount of their debenture debt, and a summary of the provisions that have been made where plans have been approved for refunding.

I might just observe here that the Department or the Board have no direct jurisdiction to force a settlement of debt. The settlement must be arrived at between the municipality and its creditors. Then, this must be submitted to the Ontario Municipal Board for approval, and a certain percentage of their creditors will have power to object to any order being approved by the Board.

Under this existing legislation a very large number of settlements are now pending and I would hope would be consummated within the next year, and they have all been arrived at by agreement.

THE CHAIRMAN: Mr. Cross, I was under the impression that under the Act, the plan is agreed upon between the municipality and its debenture holders and submitted to the Board, and if a certain percentage does not object within a fixed period then the board may confirm the plan and it thereupon becomes binding upon all the debenture holders.

HON. MR. CROSS: Yes, that is generally true, Mr. Chairman, but there are certain limitations with respect to the filing of applications. If two thirds of the creditors have approved of a plan before it is filed, then the period of hearing is reduced to one month. Otherwise, if two thirds are not in agreement it has to be gazetted for three months before the application can be heard, and then such an application, after it



is heard, one third of the creditors, if they file objections in writing with the board, may preclude the board from making the necessary order confirming the plan as filed. As to the exact meaning of that particular section, no legal interpretation has been placed upon it because its use has never been brought into question to date.

THE CHAIRMAN: You perhaps can tell me, in the Windsor case it is not the Ontario Municipal Board Act but it is a special act, is it, which is in question?

HON.MR.CROSS: Well, Mr.Chairman, that plan came under three acts. It came under the Department of Municipal Affairs Act, the Windsor Amalgamation Act and the Ontario Municipal Board Act. But there were certain jurisdictions in each of the three acts which had to be exercised to deal with the whole case. One of the questions that was argued in that case, I believe, and is now before the Court of Appeal was as to whether or not legislation dealing with an insolvent municipality was in the nature of bankruptcy legislation. The reply of course of those supporting the plan was that it was essentially a matter of municipal law and institution, and therefore should not be questioned.

Since that case has been heard, Mr.Chairman, or since it has been before the courts, the whole Windsor plan has been confirmed and ratified by act of the legislature. So that insofar as it lay within the power of the Ontario Legislature to confirm the arrangement, it has been confirmed.

I might add further it has been confirmed by the debenture holders to this extent, that 97% of them have accepted the new debentures under the plan.

THE CHAIRMAN: You are getting pretty nearly unanimous then?





HON. MR. CROSS: I should think so. It is certainly as close as you could expect to get in an issue of \$34,000,000.

THE CHAIRMAN: Yes. It is now 4:30, we will hear you further tomorrow.

Perhaps you have noticed a very interesting judgment of the United States Supreme Court handed out within the past ten days, on the Federal Government's Municipal Bankruptcy Act?

HON. MR. CROSS: No, I had not heard of it, Mr. Chairman.

THE CHAIRMAN: The United States Supreme Court has held that a federal act dealing with the bankruptcy of local municipalities is within the competence of the federal body in the United States, the Congress. I have only seen the report as it appeared in the New York Times, I have not seen the official report.

MR. LANG: Mr. Chairman, might I trespass just for a moment --

THE CHAIRMAN: You never trespass, Mr. Lang.

MR. LANG: Thank you very much. I am afraid I am a nuisance with my exhibits. This afternoon I filed as exhibit No. 304 a statement in connection with highways, and I would like to attach to that a further statement which has come from the Highways Department, showing the receipts from the Federal Government under several heads, but including all receipts from the Federal Government since 1922. That could be attached to exhibit 304.

THE CHAIRMAN: That deals, you mean, with receipts from the Federal Government in relation to highways?

MR. LANG: Yes, in relation to the highways only.

MR. WALTERS: That is not in reduction of the amounts that are shown in that report.



MR.LANG: No, it is a separate schedule, but it is referable to the same subject. It could be filed separately if you chose.

MR.WALTERS: I think it should be filed separately.

THE CHAIRMAN: Then that will be marked as exhibit 307.

EXHIBIT NO. 307 - Statement showing receipts from Federal Government since 1922 in relation to highways.

--- The Commission adjourned at 4:30 P.M. to resume at 10:30 A.M. Thursday, May 5th, 1938.

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ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

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REPORT OF HEARINGS

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MAY 5 - 1938

REPORTERS

George Thompson  
John Robertsen  
David Torry







TORONTO, ONTARIO, MAY 5, 1938.

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OF ONTARIO

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## ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

TORONTO, ONTARIO, MAY 5, 1938

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years, met at the Parliament Buildings, Toronto, Ontario, on Thursday, May 5, 1938, at 10.30 a.m.

PRESENT:

HON. CHIEF JUSTICE NEWTON W. ROWELL....CHAIRMAN

DR. JOSEPH SIROIS	)	
JOHN W. DAFOE, Esq.	)	Commissioners
DR. ROBERT ALEXANDER MacKAY	)	
PROFESSOR HENRY FORBES ANGUS	)	

Commission Counsel:

Louis S. St. Laurent, K.C.

Secretariat:

Adjutor Savard, Esq.	Acting Secretary
R. M. Fowler, Esq.	Legal Secretary to The Chairman
Wilfrid Eggleston, Esq.	Assistant to the Secretary

FOR THE GOVERNMENT OF ONTARIO:

Hon. G. D. Conant, K.C.	Attorney-General
Hon. Eric W. B. Cross, K.C.	Minister of Municipal Affairs
Hon. T. B. McQuesten, K.C.	Minister of Highways
Hon. Paul Leduc, K.C.	Minister of Mines
Chester Walters, Esq.	Comptroller of Finance Deputy Provincial Treasurer
Professor K.C. Taylor	Counsel
D. W. Lang, Esq., K.C.	Assistant Counsel
Joseph Rosenfeld, Esq.	Deputy Minister of Welfare
E. A. Horton, Esq.	Secretary, The Budget Committee
H. J. Chater, Esq.	





Parliament Buildings,  
Toronto, Ontario,  
May 5, 1938.

MORNING SESSION.

The Commission met at 10.30 A.M.

THE CHAIRMAN: We will hear you further, Mr. Cross.

HON. MR. CROSS: Mr. Chairman, I desire at the outset to make a correction in a statement which I made yesterday when asked with respect to the statistics appearing on page 72, in regard to tax arrears; one of the Commissioners asked if that represented the current arrears only and I think I replied that it did. I find now that I am not correct in that statement, and that it includes both current and cumulative arrears. We are not able, in our statistical returns, to segregate one year's taxes from another and that represents the cumulative figure, and the figures on total tax arrears outstanding in the province are not available. There should be added to that, prior to the year 1934. At this stage, Mr. Chairman, I would like to file formally with the Commission the report of the Department on Municipal Statistics. It has already been made available to the Secretariat of your Commission, but I thought I should draw the attention of the Commission to this volume, because we feel it is quite unique in this way, that it is the most comprehensive and accurate compilation of municipal statistics that has, I think, been achieved to date in Canadian affairs. I do not intend to dwell upon that at any length, but it does give you each municipality in the province, its assessment, its assessment on an acreage basis, and division of its assessment between buildings and lands, the amount of its levy for school purposes and for debenture debt, the amount of self-sustaining debt in each municipality, and the amount of tax arrears, the levies for local improvements, both



the owner's share and the municipality's share, and a breakdown on the debt and on the revenue. So that it has been of immense value to those studying municipal problems to have such a compilation of statistics available, and I think it has been of great value to the municipalities themselves in enabling them to judge what municipalities in their same class have been doing with respect to problems of municipal administration.

THE CHAIRMAN: I think that is all true, Mr. Cross; a very important and valuable document. It will be Exhibit No. 308.

EXHIBIT NO. 308: Report on municipal statistics.

THE CHAIRMAN: Mr. Cross, can you tell us what is the average assessment-- of course, I know it varies according to buildings -- of farm lands in some of the good counties in western Ontario, like Oxford and Wellington?

HON. MR. CROSS: That information, Mr. Chairman, is available in this booklet I have filed. It is all set out there by townships and by counties.

THE CHAIRMAN: We will get it from there then, Mr. Cross. The information on taxes, given on page 72, which are the accumulations, is encouraging in that it shows that by 1936 not only were there no additional arrears but that the arrears from 1935 had been reduced by approximately \$6,000,000.

HON. MR. CROSS: Yes, that is correct, Mr. Chairman. Then, if I may proceed from the point at which I left off yesterday afternoon, I was about to file as another exhibit a statement showing the complete picture with respect to the debenture debt in municipalities which had defaulted up to 1935. It gives a list of those municipalities, listing the cities of Niagara Falls, Sudbury and Windsor, and also the various townships and towns in the province which had





defaulted. I do not wish to labour the point as far as the problem of defaulting municipalities in the province is concerned, other than to observe that we had a very alarming picture in Ontario in 1934, and that it was only by energetic measures on the part of the government that the tendencies were corrected, and that we may now say that the situation is under control as far as administration is concerned. That problem of administration, I appreciate, is an internal one to some extent, with which your commission is not perhaps concerned as to the details other than along the lines that I have indicated, that we did take steps to deal with the problem as we saw it, and those steps have been effected.

THE CHAIRMAN: Mr. Cross, I assume that in your view, -- the view of the Government, you have at the present time adequate machinery to deal with municipalities that either are in default or are in danger of defaulting?

HON. MR. CROSS: Yes, Mr. Chairman, we feel that is the case.

THE CHAIRMAN: The only point would be whether there is anything in the contention which has been made, -- I think it has been made in British Columbia in an action, and I think it has been raised in this action in relation to the city of Windsor, as to whether the Government has the right to reduce the interest rate in these matters.

HON. MR. CROSS: That, of course, is a matter that is now before the court, to some extent. We have a very definite view that as far as the province is concerned it is a matter involving municipal institutions solely. We create these municipalities, we give them all their powers, to issue debentures, and it follows that any power to deal with their debt is incidental to the larger power. But that is, as I say, a matter which is now before the court.

THE CHAIRMAN: Should it turn out in the final result





by the judgment of the highest court that the province has not the full power to deal with the matter, do you think the province should be given the full power to deal with the matter so far as it relates to municipal institutions?

HON. MR. CROSS: I think so, most decidedly, Mr. Chairman, because while our view in law is that these powers are incidental, as a matter of administration they most certainly should be because of the wide powers that are given to the municipalities by the province with respect to their administration.

THE CHAIRMAN: The province seems to be the natural body to deal with that matter, and if either by reason of the legislation relating to bankruptcy and insolvency -- that is, federal jurisdiction relating to bankruptcy and insolvency, -- or federal jurisdiction in relation to interest, the province is unable to work out these compromises and make them binding on the minority ---

THE HON. MR. CROSS: I think that is most desirable, Mr. Chairman; if by any chance the court should hold that some of the powers exercised in the Windsor plan were beyond the powers of the provincial legislation, the immediate step, I fancy, would be to have that plan confirmed by the federal parliament, because 90 per cent of the creditors have agreed to the settlement.

THE CHAIRMAN: If there is really doubt about it -- I do not suggest there is, because I have not given it any consideration, I simply know the fact that question is before the courts in this province and in British Columbia -- but if it should turn out that there is really doubt or possibly some disability to work out a comprehensive plan for the rearrangement of the municipal finances so as to bind an unwilling minority, then legislative jurisdiction, one would think, perhaps, should be cleared up.



HON. MR. CROSS: I would think that is correct, Mr. Chairman. The point also has been raised, although I do not know that it has been put specifically in issue before the courts, in a settlement of this kind, that it may be that where shares are held outside the province the question of extra-provincial rights may occur, where these rights are situated outside the province, and being dealt with inside the province. But, as I say, I do not believe that has been placed specifically in issue although it has been raised from time to time to my knowledge by those who have been interested in the problem. It is perhaps of not great practical significance because the holdings except in the case of the city of Windsor are very small outside the province, and in most cases the creditors are quite satisfied to take any reasonable settlement that is provided.

Then, Mr. Chairman, I will file this general statement showing the picture with respect to the defaulting municipalities, their total debenture debt and the nature of the arrangements that have been made with respect to the refunding of those obligations. The total, as I intimated the other day, is \$103,000,000 of debt, of which \$56,000,000 has been provided with a refunding plan.

THE CHAIRMAN: That will be Exhibit 309.

EXHIBIT NO. 309: General statement  
showing total debenture  
debt of defaulting  
municipalities and  
refunding arrangements

HON. MR. CROSS: Then, Mr. Chairman, if I may proceed, on page 73:

" While it is true that there were other factors contributing to these defaults, at the same time they were in a large measure due to the taxation powers of these municipalities having been exhausted by the increasing demands for social services of





various kinds which the municipalities were required to assume. Until 1936 these obligations were, for the most part, placed upon the municipality by the Provincial Government, and it was only in 1937 that the Province of Ontario was able to put its own budget in such a position that it was able to take definite steps towards the alleviation of these excessive burdens.

The steps taken included the one-mill subsidy on the rateable assessment of every municipality in the province, the assumption by the Province of the entire cost of Mothers' Allowances and Old Age pensions, the assumption of County roads and Township roads expenditures up to 50 per cent of the total cost. In all, this relieved the municipalities of an annual tax burden of more than \$13,000,000.

Detail of the annual savings to municipalities for the year 1938-39 are:

One-Mill Subsidy	\$3,000,000
Mothers' Allowances	2,220,000
Old Age Pensions	1,139,000
Township Road Subsidy	300,000
King's Highways	4,000,000
County Roads taken over	500,000
Hospitalization -- indigent tubercular patients	1,000,000
Education -- 1938	1,200,000
	<hr/>
	\$13,359,000

Might I just observe there that relief might also have been afforded to the municipalities had the Dominion increased its grant-in-aid this year with respect to unemployment. You will recall, Mr. Chairman, that you asked me yesterday for the views of the Department with respect to the problem of grants-





in-aid in particular reference to unemployment. I might just observe that this province and the municipalities of the province approached the Dominion Government in February and March of this year, and the proposal was made to the Federal Government at that time that the basis of grants-in-aid with respect to unemployment relief should be on a basis of 40 per cent for the Dominion, 40 per cent for the province and 20 per cent for the municipalities. We have had no official reply from the Dominion Government with respect to that proposal. It would further relieve the municipalities if such a policy were followed, and the way the matter stands now, for this year the province is contributing a total of 45 per cent of the cost of relief throughout the province, the municipalities will assume approximately 30 per cent, and the Federal Government in the neighbourhood of 25 per cent. If the Federal Government does make increases in their grants we have proposed to pass those on to the municipalities on a pro rata basis for this year, but in the meantime we are proceeding with the province making the same contribution as it did in other years, which we felt and still feel is a very large percentage for us to bear. But, we have endeavoured to pursue this policy of relief to our municipalities, and if the federal grants were increased this year we may be able to pass some further benefit to them. That is the position at the present time, and that was the definite proposal on a percentage basis which this government had advanced and was supported by the municipalities of the province in that submission.

THE CHAIRMAN: Mr. Cross, I must say I have been rather impressed in the course of these hearings with the difficulties that are inherent in these grants-in-aid, that differences of opinion may arise between the various authorities as to the amount each should contribute; whether that



system aids in the maintenance of the best possible relations between the different governments, or whether some other method could be devised which would be better, and which would tend more to smooth the relations between the various governmental bodies.

HON. MR. CROSS: Yes, Mr. Chairman, it is quite true that the system of grants-in-aid is subject to the objection that you have pointed out, and if this commission can make some suggestion as to a better method of handling it --

THE CHAIRMAN: I do not know whether we can or not, but I think you will agree that it would be advisable to devise some method whereby each government could collect its own taxes.

HON. MR. CROSS: That is what I had in mind in the last paragraph there when I made a suggestion with respect to the province collecting the income tax, sufficient to take care of what the Federal Government otherwise contributes. Whether it should be handled in that form or in the form of an increased subsidy it would eliminate one of the bodies from this three-government system of grants-in-aid.

THE CHAIRMAN: If we had only this province to deal with, Mr. Cross, that might be a very simple solution, and a very reasonable one, but our difficulty is that, on the facts presented to us, there are several of the provinces which could not carry their relief load if they had this provision of the income tax. We have to try and work out some method for dealing with them, and whether we should have a common method for all or different methods, is a difficult problem. Just on this point, Mr. Walters yesterday quoted from Mr. Robb's statement at the 1927 interprovincial conference. I notice in the Nova Scotia brief they have a further quotation from Mr. Robb in reference to the methods, on page 123 of the Nova Scotia brief, following a quotation





from Mr. Price, suggesting that income tax should be handed to the states, following the Australian example. This is what Mr. Robb states, as quoted in the Nova Scotia brief:

" The recommendations of the provinces are double edged. First, there is the demand for increased expenditures by the Dominion Government, and on the other hand that we should withdraw from certain fields of taxation and revenue. Recommendations have been made that subsidies should be increased, that certain expenditures for varied means of transportation should be undertaken, that the old age pensions should be at the sole expense of the Dominion Government, etc. On the other hand, it has been urged that the Dominion should withdraw from the income tax field and other direct taxation sources, that we should reduce the customs and excise duties on liquors, etc. I have not made a minute calculation, but off-hand would estimate the varied recommendations involve either in the expenditure or in the drying-up of sources of revenue, one hundred millions of dollars annually."

This would not seem to indicate that Mr. Robb favoured giving up the revenue. I only have this extract in addition to the one Mr. Walters read yesterday -- it was just on the point you suggested, that Mr. Robb had favoured it. This extract would not seem to lead to that conclusion, unless there is something further in the report which would qualify that.

MR. WALTERS: Mr. Chairman, I hesitate to refer to the Hon. Mr. Robb too much because he has passed away, but my statement was that on more than one occasion the Hon. Mr.





Robb had made a half promise to some day retire from the field of income tax insofar as the tax on persons is concerned. Apparently he did not altogether favour it or he would have done it, but he considered it.

THE CHAIRMAN: You read an extract from the 1927 Conference proceedings, and I thought that this extract in the Nova Scotia brief should stand side by side with it to get a fair picture of what Mr. Robb said.

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(Page 7743 follows)



MR.WALTERS: Of course, Mr.Chairman, you would have to take the verbatim report of the 1927 conference.

THE CHAIRMAN: Yes, you have to take the whole report.

HON: MR.CROSS: Shall I proceed, Mr.Chairman?

THE CHAIRMAN: If you please.

HON. MR.CROSS: The next section of the brief, which deals with Municipal problems I do not propose to read this morning, unless you wish it read. It deals with the legislative history of the province in dealing with the problem of defaulting municipalities, on which I have spoken at some length already. It makes reference to the old Ontario Municipal Board provisions where a committee of supervisors were set up and those committees were in effect the controlling body of the municipality. Then we proceeded from that to the creation of a department of municipal affairs under which department all the actual supervision is done at the present time. These next pages, 75 and 76, deal with that history in some detail. As it is a matter of internal administration I thought wise perhaps to make it a matter of record, but in view of the quite wide discussion we have already had in respect of the matter I do not propose to read it.

THE CHAIRMAN: I do not think it is necessary to read it into the record but perhaps, Mr.Cross, you would do this: Naturally I am more familiar with it than my colleagues from the other provinces. Perhaps you would state just in a few words the present procedure, the circumstances under which you appoint the administrator and then the measure of control which he exercises, just those two points.

HON. MR.CROSS: Yes. Well, Mr.Chairman, on page 77, I would just read that one paragraph at the top of the



page.

"The Department of Municipal Affairs Act provides that upon application of the Department, the council, or of creditors having claims representing 20% of the total debt of the municipality, the Ontario Municipal Board is empowered to order control and charge over the affairs of the municipality to be vested in the Department. Such an order is effective in its application until such time as a countermanning order is issued by the Board. Such countermanning orders releasing municipalities from the Department's jurisdiction can only be made by the Ontario Municipal Board, however, upon the recommendation of the Department."

Then, as to the measure of control, the Department officials must approve of the estimates of the year early in January and February of that municipality and I might say the administrative set-up is that in the Department we have several supervisors who are given specific responsibility with respect to certain municipalities. It is their duty to study the budget and be familiar with all the local problems of that particular municipality and they are charged with considering the estimates that are prepared by the municipal officials and approving of those estimates, the limitation of the expenses of the municipality to those estimated, once the budget is established. Monthly budgets are set up for those municipalities and the supervisors check all disbursements that are made from month to month in order to see that once a budget is set and a tax rate is struck, that that budget is maintained and is not exceeded during the year. That generally is the measure of control. All bylaws





of the municipality must be approved by the Department and that gives us direct control over all matters of municipal administration.

THE CHAIRMAN: The council functions in a measure normally except that its bylaws must be approved by the Department and the budget must be dealt with in the manner you have outlined to us?

HON. MR. CROSS: That is correct, Mr. Chairman. The Municipal Act on all the powers of the council is not interfered with except on the particular matters you have mentioned, Bylaws and budgets and tax rates and the essential matters of financial control are subject to the approval of the Department.

I do not think I have anything to add, Mr. Chairman, other than to sum up by saying that the province recognizes the problem of the burden upon real estate and we are taking the best methods we can, within the limitation of our own budget requirements, to deal with that situation because we feel that socially it is of the utmost importance that the building of homes be encouraged that it and/be a profitable investment for any farmer or urban dweller to own his own home. Where real estate taxation has mounted, as it has inclined to do in recent years, it has been perhaps a deterrent of that tendency and we are most anxious to do whatever we may within, as I say, the requirements of the Province to alleviate the situation and we have, as indicated, in 1938 alleviated that position to the extent of \$13,000,000.

THE CHAIRMAN: Thank you Mr. Cross, it is a most interesting and informing statement.

MR. WALTERS: Mr. Chairman, may I just refer again to this matter that was mentioned? I may say it now comes to my memory, having read an item that was placed in my hands, I think I will be able to produce the statement



in Hansard, perhaps today. But I am beginning now to recall having sat in the official gallery at Ottawa myself and heard the statement, but I should like to read it into the records, from Hansard.

THE CHAIRMAN: Yes, certainly.

MR.WALTERS: Part of the statement made by the Honourable Mr.Robb in the last budget address that he delivered. And I submit, sir, that the actions of a Minister of Finance perhaps speak more loudly than his occasional words in an informal conference. The action of the Honorable Mr.Robb was to consistently remove the burden of income tax, and I believe on different occasions he expressed himself as being conscious of the fact that to tax a corporation and then subject the dividends of the corporation to a tax was double taxation.

THE CHAIRMAN: Yes.

MR.WALTERS: And in that respect was iniquitous.

THE CHAIRMAN: Yes, I know ~~he~~ entertained that idea quite strongly.

COMMISSIONER DAFOE: But it was he who put that provision in the income tax.

MR.WALTERS: No, I think not. I think it was done in the time of Sir Henry Drayton.

COMMISSIONER DAFOE: That is not my recollection, which may be faulty.

THE CHAIRMAN: I know I have argued that proposition with Mr.Robb quite strongly, that it was iniquitous

MR.WALTERS: I believe I am right, Mr.Dafoe.

COMMISSIONER DAFOE: We will have to look up the authorities.

MR.WALTERS: I tell you just why I speak not by the book : I was appointed inspector of income tax for the Hamilton district on the 20th of April, 1920 when Sir Henry Drayton was Minister of Finance, and it was in the



act at that time.

COMMISSIONER DAFOE: In that case Mr. Robb did not put it in.

MR. WALTERS: No, I do not think he would have put it in. Here is what he said: The Honourable J.A. Robb in speaking on the budget on February 16th, 1928, said in part:

"As an added encouragement to business as a measure of relief to tax payers and to those provinces where local taxes are levied."

He admitted that principle right there, that it was something calling for Governmental action and recognized the fact that another jurisdiction was imposing the same kind of a tax on the same persons. Then he goes on:

"to those provinces where local income taxes are levied, it is proposed that the Dominion shall continue gradually to lighten the load in the income tax field. Last year a reduction of ten per cent in all rates of the income tax was announced. Today we are able to go a step further to propose that the income tax payable by individuals be reduced an additional ten per cent."

THE CHAIRMAN: Of course the qualifying provision, Mr. Walters, which we must bear in mind was that at that time the Government was having a surplus and it could reduce taxation, just as this Government had last year. Since 1930 there have been huge deficits, they have not been reducing taxation very much, they have been increasing it.

MR. WALTERS: But, Mr. Chairman, I submit these two points, that in that one sentence the Honourable Mr. Robb indicated a desire to continue,--

THE CHAIRMAN: Quite, there is no doubt about that.

MR. WALTERS: That is the first thing I submit. And





the second thing I submit is that he had consideration for those provinces where there was a local exaction, either through the provincial authority or the municipalities, and that to me clearly indicates his attitude towards personal income taxes.

THE CHAIRMAN: Thank you.

MR.LANG: Mr.Chairman, might we now go on to the next subject in book 2, page 78?

THE CHAIRMAN: Yes, all right.

MR.LANG: This subject being "Some Observations on Tariff and Monetary Policy". Professor Taylor will deal with that.

THE CHAIRMAN: Thank you. You are getting into a really interesting question.

MR.LANG: Yes, Mr.Chairman, "Observations", however. "Some Observations".

THE CHAIRMAN: I do not mean that the last subject was not very interesting too.

PROF. TAYLOR: Mr.Chairman and members of the Commission: As we point out on the first page of this brief, and perhaps it is unnecessary to read the observations in extenso, Canada has had a protective trade and tariff policy for nearly eighty years and for sixty years at least that policy has in its substance, I suggest, been practically unchanged. There have been variations in rates, there have been slight upward tendencies at times, slight downward tendencies at others. But in what I call rather vaguely the general level of protection there has really been no change since 1879, with the exception of the first four or five years of the present decade.

THE CHAIRMAN: There have been a good many political speeches made that would not entirely agree with that view,



PROF. TAYLOR: Yes sir, but we did not reproduce the elaborate charts on average rates of duty and so on.

THE CHAIRMAN: No, it is not necessary.

PROF. TAYLOR: In sixty years I suggest that Canada has maintained its policy of considered protection based on international comparisons of a comparatively moderate scale.

Reading from the middle of the second paragraph I state:

"There has been a certain amount of protest from both extremes, and occasional sporadic revolts in this area or that on the tariff question. But in fact, if not always in theory, there has never been a coherent long-lived party organization committed to radical change of the whole policy.

During these sixty years, and under this policy, Canada has prospered greatly, and every part of Canada has shared in this prosperity."

I suggest there may have been an equal or greater or lesser degree of prosperity under a different policy, but that, I suggest, is a somewhat academic question.

The tariff policy, as you have pointed out on several occasions at other hearings is a Federal matter and as a province we have no case either for or against any particular trade or tariff policy. The tariff policy is the concern of the Federal Parliament and it is in the arena of federal politics that the issues should be discussed and must be decided.

The tariff issue however has been injected into the discussion before this Commission and it has bulked large in some of the briefs submitted, and in effect, by implication it has been made a basis for consideration for compensation for disability or adjustment of some



sort.

THE CHAIRMAN: Yes, perhaps there, to prevent a misapprehension, Professor Taylor, I do not think any of the provinces have made a claim that they should be compensated for the extra amount which they claim the tariff was costing them. What I understand their briefs to indicate is that they set forth the claim as to the extent of the burden that the tariff has imposed upon them and they said that should be taken into consideration in adjusting Dominion-Provincial relations. That is, the incidence of the federal economic policy.

PROF. TAYLOR: Yes, I gather that from reading the examinations, sir, both in Winnipeg and in Victoria, that on examination, that was the position that they took.

THE CHAIRMAN: Yes. Up to date we have had no indication, to speak from recollection, as to how one was to measure the weight that should be given to that in adjusting Dominion-Provincial relations.

PROF. TAYLOR: Yes, as I understand it, in the case of the Manitoba brief at least they set up two certain quantitative measurements of their disability and I think the implication from reading the brief, in the first place, seems to invite consideration of those amounts when compensation is to be considered, but in the examination, as I say, I recognize they have merely said that those should be taken into consideration in a general way when financial re-arrangements were being considered.

THE CHAIRMAN: Yes. You see when one looks at it, it is rather important we should keep the issue clear before us as to just what the contentions are of these provinces, without expressing any opinion whatever on the merits of the contentions. The figures were given





as an estimate of the extra cost to the individuals residing within the province and that cannot be the basis of compensation to the government. The only basis of compensation, if it should be considered at all, one would think, would be the diminution in the tax-paying capacity of the people of the province by reason of the additional burden. At least, that is the way it strikes me. I do not know what your view is, assuming that it is a subject matter for consideration. I do not express any opinion on whether it is or not.

COMMISSIONER DAFOE: British Columbia also gave a quantitative estimate of the disability of the province in terms of money. But of course all the provincial governments, and I think every brief we have had to date, including Ontario, every provincial brief has been in agreement, they concede that the tariff is a federal matter. Some of them say that in certain localities the effect of these policies may conceivably be beneficial, but they do claim that, in the general reallocation of revenues, the fact that they have been damaged by this federal policy should be a factor to which consideration should be given. But there is no account rendered in any bookkeeping sense.

PROF. TAYLOR: I agree all that came out in the examination at Winnipeg, as I read the examination. The form in which some of the figures are reproduced from time to time gave the impression that multiplications and additions and totalling up of existing ---

MR. LANG: But, Mr. Chairman, there was a quantum stated. That is our point.

THE CHAIRMAN: There was a quantum stated of the burden which they said the tariff imposed upon the



citizens of the province. They gave figures.

MR.LANG: Yes; as for instance, I may put forward a general claim and in putting forward that general claim I say I wish to be compensated in money, and in order to establish a quantum of compensation I introduce figures into my case. Now that is, in effect, in my opinion, what has been done.

THE CHAIRMAN: I may say, Mr.Lang, we did not understand it that way. We understood it was a general statement of the burden which they claimed their citizens had to bear by reason of the tariff and they went into figures. I think you will see - you were there I think - from the examination, the questions asked, the Commission found it very difficult to accept any figures, but it must stop to look at it and analyze it, and that is why I bring it down to concrete form so one can look at the proposition. If a federal tariff policy has to be taken into consideration at all, and again I repeat I express no opinion upon it because it is my duty to keep an open mind until we have heard everything, so far as I can see at present the only way it could be taken into account would be that it diminished the tax paying capacity of the citizens of the province by some sum, or it possibly reduced the revenues or the taxation of the province. At present I do not know how you could estimate that, but that is the way I understood their proposition. I did not know whether Professor Taylor could throw any light on how to arrive at it. I have confidence in Professor Taylor's ability as an economist.

MR.LANG: I do not wish to labour this at all but I wish to get my own position clear. In referring to the Manitoba submission I think I am right in this, that at the end they say "We wish the federal government to do





certain precise things involving money, very specifically; in fact, I think the figures are definitely set out in some respects. Now, that is what I had in mind when I suggested there is a compensatory claim put forward and "in order to justify this we go into another quantum and we add that up. In other words, we are making a claim and this is the ground on which we make it". That is the point I want to bring out.

THE CHAIRMAN: I see the point of view you present.

PROF. TAYLOR: On the general point, Mr. Chairman, as to the extent to which disabilities or alleged disabilities should be taken into consideration, I am speaking personally now, I do not see and find very difficult to get around the position, the general conclusion on that particular point, that the Australian Grants Commission has come to, because a tariff policy quite conceivably could create substantial disabilities in a prosperous area.

THE CHAIRMAN: Quite.

PROF. TAYLOR: For example, I think probably on the basis of some calculations we might show that the tariff had cost the mining industry of Ontario a great deal. Yet, we are not suggesting that should be compensated. That has been a recently prosperous industry. And that was the view of that Australian Grants Commission. I speak from memory now, they took the view that probably on a computation basis that the cost of the tariff in Queensland, I think for example, might have been quite heavy, but Queensland was relatively a prosperous state. And it is on grounds of that sort that the Australian Grants Commission, and I think rightly in that case, rejected the idea of using disability as either a





measure of the degree of compensation or, for that matter, an indication that some compensation was necessary, or some additional grant or financial re-arrangement was necessary.

COMMISSIONER ANGUS: Did not the Grants Commission, I am speaking from memory too, say something like this: That for a national policy, like the tariff, voted by Parliament, it is for Parliament to consider how far it is appropriate that there should be countervailing policies or something of that kind, but for the purpose of the Grants Commission itself the situation arose as you stated it, that they could not consider that any prosperous region was entitled to anything from them. I mean they were not dealing with the propriety of the national Parliament offsetting tariff sacrifices by some compensation.

PROF. TAYLOR: I think if I understand you correctly that is the position we have taken in this page and the following page, that on the first question it is a matter for the federal parliament to decide, and the second point is that if you are going to consider federal policy you must consider federal policy as a whole, you cannot pick out the tariff policy or some other one policy. We suggest it is not a logical basis on which to approach the subject of Dominion-Provincial or state-commonwealth relations, but if you are going to start on that item you must take in the federal policy in total, the total federal policy, and not pick out one or two particular policies.

I would present, then, sir, just some observations, in the first place, on two or three of the general questions raised. The first I have already mentioned in



answer to your question, to what extent should disability or alleged disability arising out of any federal policy be taken into consideration. I suggest that disability per se is not a good ground for claim, for re-arrangement or better terms or something of that sort.

Then, the second point that is raised is that one I have just mentioned, that the tariff policy cannot be isolated from other policy. . . . This is at the top of page 79.

"Tariff policy cannot be isolated from other policy. Government policy in any particular regard is inseparably bound up in policy as a whole. Tariff policy, at the very least, must be considered as a part, and not always the most important part, of what may be called Trade policy."

Trade policy consists, I suggest, of a great deal more than the rates of import taxes or even of import taxes plus administrative regulation. There is the other side of trade treaties and agreements, the general trade policy of the Government as a whole.

( Page 7758 follows )



THE CHAIRMAN: In the brief submitted by Professor Carrothers, in British Columbia, he dealt with the tariff disability quite independent of the effect of the trade treaties. Your view, as expressed, here, is that you cannot do that, you must put the two together.

PROF. TAYLOR: Tariffs are undoubtedly connected-- in a very real sense the Canadian tariff cannot be made entirely in Ottawa. In a very real sense, the Canadian tariff must be made or influenced by events which happen in London, Washington, Berlin, and other parts of the world. You cannot discuss or at least, I do not see how you can discuss the Canadian Tariff policy merely by concentrating attention on prevailing rates of duty or even by adding to that the administrative protection of which there has been a great deal of complaint, during the present decade.

THE CHAIRMAN: There is no doubt that it makes a vast difference in the result. If you approach it by taking the whole view as compared with a partial view, there is a vast difference. Your contention is you must take, not only the whole view of the trade policy, but the whole, sum total of federal policies?

PROF. TAYLOR: I think so, sir. I think that is developed on the next page or two of the brief. I suggest also, that trade policy is closely related to railway, shipping and monetary policy. In the second paragraph, I suggest;

"Even trade policy as a whole cannot be properly appraised by itself; it can be evaluated with only reference to other policies. Railway and ocean rates and services and government policy in relation to them, may often be more important factors in trade than customs duties. Monetary policy may be designed to give effect to Trade





"policy, or Trade policy can be altered to secure a Monetary objective."

We pass on now, to the history of the tariff policy. The Trade policy of the early years of this decade, as I recall it, the second tariff of September 1930 and late 1931, were advocated very largely on the counts of protecting employment. I recall that I happened to be in the gallery of the House during Mr. Bennett's budget speech of 1932. I think that speech marks a changeover. At that time, Mr. Bennett very largely defended the tariff policy as being, in effect, a sort of monetary policy. His whole argument was that we had raised our tariff, we had imposed administrative protection in order to defend Canadian exports. In the middle of the paragraph it is stated:

"No policy can ever have an equal effect over the whole country. Every policy confers uneven benefits and imposes uneven costs. The Australian Grants Commission, after prolonged study--"

As I understand it, in 1937 the fourth report sets out that the tariff policy probably did impose uneven burdens. The commission singled out western Australia as probably being especially badly hit, but it was asserted very vigorously that the tariff was only one aspect of the federal policy and that federal policy must be considered as a whole. I have not the report here, but I understand the Commission just about rejected the validity of the whole basis of making claims on governmental or federal policy.

COMMISSIONER ANGUS: In the fourth report, as I remember it, Professor Giddling was no longer a member of the Commission. Did not the report say something which rather approached this, "Even if we did go into calculations



and even if we took the figures most favourable to western Australia, then set off the tariff policy against the monetary policy and so on, we could not come to the conclusion that there was any great change. Therefore, for that reason, it is unnecessary to go into it." Did not the report end on that slightly unconvulsive note?

PROF. TAYLOR: Yes, and quoting from the third report, paragraph 231:

"There were no available measures of this disability, and it appeared unlikely that the burden on this account was appreciably greater than the net benefit derived from the distribution of Commonwealth revenue and expenditure. We therefore did not take the tariff into account in assessing the effort to be expected from a claimant State. (Third Report, 1936, page 95, paragraph 231.)"

COMMISSIONER ANGUS: My memory is that the composition of the Commission was changed a good deal before the fourth report. After that change, they said, "We will go over everything anew, not being bound by our previous findings." It was in that report, I think, that they went into western Australia's losses by the tariff and supposed benefits by the monetary policy.

PROF. TAYLOR: I have here, a quotation, I am sorry I was not able to get a copy of the report itself.

This quotation is from the fourth report, 1937, pages 48,49, paragraph 94:

"We have shown that there is no net burden to the claimant States in/<sup>the</sup>working of the tariff, and it is not necessary to discuss the basis of disabilities any further. The States themselves presented no further evidence to rebut the con-





"clusions stated in the Third Report. (Fourth Report, 1937, pages 48-49, paragraph 94.)"

I might say, Mr. Chairman, in referring to the Australian Grants Commission that I happen to be an economist, not a lawyer, and I am citing it not as an authority in the legal sense, but more as an illustration of what other people did with the same problem in a different setting.

I continue now, with the last paragraph on page 79:

"Assuming for the moment, however, that trade policy can usefully be discussed in isolation, what can be said of the effects of 60 years of protection? Economists and historians do not speak with a single voice, but there is fairly general agreement that it accelerated economic diversification and stimulated the growth of certain types of secondary industries. But it is frequently asserted that the tariff has concentrated industrial development in Ontario and Quebec."

I notice that the Commission raised the question, in examination, several times.

THE CHAIRMAN: There is no doubt that has been the contention in a number of briefs, Professor Taylor.

PROF. TAYLOR: I think it is entirely an unwarranted assumption, that given a different trade policy there might have been different kinds of industrial growth, there might have been larger or a smaller quantity of industrial development. My personal opinion is that industrial development would not have been, in quantity, very much less, but it might have been of a different variety. I do not think any good purpose is served in discussing what might have happened under complete free





trade, but any different policy, irrespective of that different policy, I doubt very much whether there would have been any less industry. Industrial development would have taken place and would have concentrated in the lower lakes and St. Lawrence area under any trade policy. Industry would have settled where the population was thickest and where the cheapest transportation facilities were established, that is in the southern lakes area. After a geographical and topographical study of Canada, that is the obvious area for industrial development. I think it is probable that the tariff policy has actually dispersed industry, to some extent. It is possible that had the tariff policy been made the sort which did not encourage the movement of trade from the Lower Lakes-St. Lawrence area to the western provinces, the western provinces would have been supplied from the Chicago, Milwaukee, and Minneapolis area. Such industrial development as has occurred in the prairies might, very probably, not have been as great; there is no method for proving that.

COMMISSIONER ANGUS: You mean that local industry got protection from freight rates which it would not have secured if there had been other sources of supply?

PROF. TAYLOR: What I mean is this; it has paid Canadian concerns having plants in the Lower Lake-St. Lawrence area, in a number of instances, to establish branches, in Winnipeg, Regina, or some other western point. Had there been very much lower tariffs, these plants would not have been established, as the western provinces would have been supplied from Chicago.

COMMISSIONER MacKAY: You mean that the shorter distance then makes a difference?

PROF. TAYLOR: Yes, I think that the natural line of



transportation would be through the middle-western area. There is a very large industrial development in Wisconsin, for example. I think you would have had rather less industry on the prairies. I am not pushing this, sir, as an unqualified statement, but I think the balance of probability is certainly along that line, that the tariff policy has tended to disburse rather than exaggerate the concentration of industry.

Returning to the brief, at page 80, the second paragraph, I read:

"Trade and tariff policies undoubtedly impose costs and confer benefits. Various briefs presented to the Commission have emphasized the burdens of the tariff in various regions and have assumed that large benefits accrue to central Canada and especially to Ontario. The impressions thus presented must be corrected by some consideration of the benefits accruing to those other areas and the burdens imposed on Ontario."

I am not trying to set up a balance, at the moment, but I suggest there are items, on the other side of the ledger.

"Industrialism is not all benefit; it also imposes heavy social costs. Industrialism and urbanization impose heavy costs in sanitation, local and inter-urban transport services, police and fire protection, and so on. Sir Patrick Geddes once said that more than half the cost of local government in England was to make life under urban industrialism tolerable."

Primary producers do probably have their costs enhanced by a certain type of tariff policy. I suggest that so-called exposed Canadian industries do suffer from being caught between the rigid, inflexible price structures. You have one set of prices which are much more flexible





than others. The tariff does, to some extent, increase the rigidity and lack of flexibility in certain types of prices. However, you get this same type of flexibility and rigidity in countries which have very different types of tariff policy. This is just a general phenomena of manufactured goods which have more rigid prices. Their prices fall less in periods of depression than the prices for primary products. The western provinces, for example, suffer in the form of a heavy reduction in the consumption standard of life, but the central provinces suffer from extremely heavy unemployment and very drastic reductions in factory payrolls. I believe I can give you the actual wage rates, I have some figures here, I do not know whether it is necessary to put them in, but I have some figures on the actual payrolls of Ontario industries.

THE CHAIRMAN: It might be interesting if you could give us the figures concerning the reduction in payrolls during the depression period.

PROF. TAYLOR: These are the figures compiled from the reports of the Ontario Workmen's Compensation Board. I think these figures are likely to have a high degree of accuracy because the rates charged by the Board are based upon the payrolls. Taking the peak year of 1929 there was \$559,000,000, in industrial payrolls coming under the Workmen's Compensation Board in Ontario. This fell to a low point in 1933 of \$289,000,000.

THE CHAIRMAN: It was practically cut in half, was it?

PROF. TAYLOR: It fell by 49 per cent, practically by 50 per cent. This has come back in 1936 to \$410,000,000. This includes, indirectly, the cost of unemployment. The weekly wage rates or the weekly wage of those who worked was at a high point of \$23.85 in 1929 and fell to a low point of \$15.86. It fell about 31 per cent. Now, the average weekly wage for those who were working--I might add one further qualification and say that this does not





mean, necessarily, a decline of 31 per cent in hourly rates or daily rates. In 1929 there might have been a substantial amount of overtime, and in 1933, there might have been a substantial amount of parttime. The pay envelope in 1929 was roughly, \$24.00, and in 1933, it was just \$15.86.

COMMISSIONER ANGUS: Have you any comparable figures on the variation in farm income?

PROF. TAYLOR: Oh yes, I think I have. I believe it shows approximately the same, a cut of about 50 per cent. This is the agricultural revenue of Ontario, for Ontario, the total gross agricultural revenue, which I think means production, the production which enters the market, was \$517,000,000 in the peak year of 1928. It was \$240,000,000 in the low year of 1932. This is considerably less than half. It has come back to \$354,000,000, according to the latest figure which we had for 1936. The gross production per farm, if these figures are of any interest, was approximately \$2,700 in 1928, and in 1932 it was \$1,289. Again, the average per farm is rather more than cut in half.

COMMISSIONER ANGUS: I suppose, roughly speaking, any agricultural loss was lessened by being spread over the whole group?

PROF. TAYLOR: That is the difference between agricultural and industrial communities. The loss in an agricultural community is spread, more or less, evenly over all of the producers. In an industrial community, some workers lose everything and others merely suffer a comparatively minor diminution of income. Even, Mr. Chairman, if we were to control many items in the tariff, there are heavy costs to Ontario. Even if you consider Ontario as a producer and not as a consumer, the duties on coal, lumber, and sugar, by way of example, are very largely included in the cost of coal and these other



products. These duties are wholly, I think, for the benefit of other regions.

COMMISSIONER DAFOE: Does Ontario import any lumber?

PROF. TAYLOR: Yes, we import a fair amount of B.C. lumber.

COMMISSIONER DAFOE: You do not pay duties on that, but you may pay an increased price because it is protected.

PROF. TAYLOR: Yes, I think we do. I am not an expert in the lumber field, but there are heavy duties paid. There is a tariff against lumber and Ontario gets lumber from other parts of Canada.

COMMISSIONER DAFOE: Then on sugar, what areas in Canada are helped by the protection of sugar?

PROF. TAYLOR: I am not sure if I have the sugar industry returns here or not. The principle areas for production of sugar are, southwestern Ontario and Alberta. There are some in Quebec, Mr. Sirois, are there not?

COMMISSIONER SIROIS: Yes, there are.

PROF. TAYLOR: There is a large amount of sugar refining done in Halifax, Nova Scotia, and Montreal. I think there are two refineries here in Toronto, I am not sure.

COMMISSIONER MacKAY: Does Ontario import much sugar from the other provinces?

PROF. TAYLOR: Ontario certainly imports from Montreal. I understand that twenty years ago, just after the war, Ontario imported heavily from the Halifax refineries.

COMMISSIONER DAFOE: I cannot think that Ontario suffers any disability to the advantage of sugar production in western Canada because I believe only 20 per cent of the western provinces' demand for sugar was supplied by them. Sugar comes into western Canada; it is brought in from other parts of Canada. I think on sugar it would be a standoff between benefits and disadvantages.





PROF. TAYLOR: We have not really made any elaborate calculation as to the benefits or costs of tariffs because, quite frankly, I do not think they mean very much. I think the impression is that the provinces are starting to set up accounts or measure statistically the benefits and costs of these policies. That is the impression, I think, from the publicity which has attached to the Manitoba brief.

COMMISSIONER DAFOE: You think you could build up a counter case if you went at it seriously, do you?

PROF. TAYLOR: I am sure I could, sir.

I find that the Maritime provinces have had a large measure of protection. According to Dr. Carrothers' figures--I notice he made a table on the amount of protected industry in the different provinces. I see the Maritime provinces are well up in the van with the others. Ontario, Quebec, Prince Edward Island and Manitoba are all in about the same class, according to Dr. Carrothers, as to the percentage of industrial production which enjoys some protection. I know that is qualified by the fact that he makes no attempt to measure the degree of protection. On page 314 of the British Columbia Brief he says:

"It can here be seen that the goods produced in the various provinces available for sale under protected conditions varying from 79.41 per cent in Prince Edward Island to 50.96 per cent in Saskatchewan, the percentage of protected production in British Columbia being 54.3 per cent. "

Dr. Carrothers finds, with some surprise that Prince Edward Island was the most highly protected province in Canada, and its production was sold practically all under protected conditions.





COMMISSIONER ANGUS: Professor Taylor, in British Columbia I think a sharp distinction was drawn between the sort of protection which a province might have had if it had been an area by itself, the protection for local products sold within the province, and the protection which affected its exports to other provinces. I wonder if Prince Edward Island might be in that position, is it a protection of local production?

PROF. TAYLOR: I was going to say that while there are certain tables given here, I do not know how Doctor Carrothers built up this table. These figures, themselves, are not very conclusive. This points out that protection is extended generally, to most parts of Canada. I think the Maritime provinces and the industrial development of Nova Scotia, is, undoubtedly, in the very heavily protected class. I suggest in the brief that:

"The tariff preferences given to Maritime ports have benefited them and imposed substantial costs on the rest of Canada."

This is a matter of very considerable substance if we start to work out cash benefits.

COMMISSIONER DAFOE: I am interested in that sentence, "The tariff preferences given to Maritime ports have benefited them and imposed substantial costs on the rest of Canada." I would like to get your views as to how it happens that it imposes substantial costs. There is a preference on goods coming through Maritime ports. If there were not this preference, we would have goods coming in via Maritime ports or via American ports. Is the advantage of the preference on goods brought into Maritime ports offset or more than offset by the freight rates to these other provinces? Otherwise the other provinces would share in the advantage of the preference and there would be no disadvantage to anybody; I would like to know your views on that point.



PROF. TAYLOR: Well, I would assume that where British preference applied to goods entering Canada no matter how they entered, they would then come by the cheapest rate and I understand experience shows they come very largely through American ports. In order to encourage and develop, particularly Halifax and St. John, the government introduced a good many years ago, the qualification that the British preference would only be applicable if the goods were imported into Canada through a Canadian sea or river port. I suggest that this clause in the tariff has substantially increased the volume of traffic coming into Halifax and St. John, particularly during the winter season when the St. Lawrence ports are closed.

COMMISSIONER DAFOE: And the advantage is absorbed in freight rates, is it? The freight rates from the Maritime ports to Upper Canada must offset the advantage of the preference or there is no added burden.

PROF. TAYLOR: Yes, I see the point there.

(Page 7774 follows)



THE CHAIRMAN: I suppose if the total cost in freight rates is greater, ocean and rail, -- I mean by the Maritime Ports, than it is by the rates on which goods were brought in prior to that date, to that extent it does impose a burden because in order to get a preference which they otherwise would have got they have to bring it by the more expensive route.

PROF. TAYLOR: If the goods had come in through New York the cost might have been any given figure, under the new ruling. Some years ago if you brought them in by New York you had to pay the intermediate or general rate -- I think it had to be the general rate because under most of our trade agreements the treaty rates were often applicable only to goods arriving by the sea or river ports of Canada. And the fact that those rates were made available if the goods came in through a sea or river port of Canada, I think this certainly conferred benefits on the sea and river ports in the form of increasing their volume of traffic, handled through those ports, and I still think would very possibly impose costs on the consumers of those goods in other parts of Canada.

THE CHAIRMAN: Of course, the provinces of Nova Scotia and New Brunswick would say it was part of the Confederation agreement, that those ports should be developed for through traffic.

PROF. TAYLOR: Yes, but I suggest then that this again should be perhaps a small, but nevertheless an appreciable offsetting item. The next sentence perhaps should be in a later part of the brief:

"The Dominion has taken over the whole cost of administering the fisheries. Maritime products have always received close consideration in Canadian trade treaties."





To the extent I find it very difficult to measure, but if, for example, a lower rate of duty on Maritime fish is secured in a given foreign market in return for lower rates of duty on some manufactured product made in Ontario, I think you can speak in a general way of the cost of that being borne by the Ontario Industry and the benefit going to the Maritime fisheries.

COMMISSIONER MACKAY: How does the cost of administration of fisheries come in?

PROF. TAYLOR: I said a moment ago that that should be on a later page. Well, in 1927 or 1928 the Dominion Government created a Department of Fisheries and took over the administration and development of fisheries, principally in the Maritime Provinces and in British Columbia. I think if you go into the Department of Fisheries expenditures you will find that practically all the activities of that Department are in developing a natural resource, shall we say, in the Maritimes and British Columbia.

COMMISSIONER DAFOE: I think there has been a Department of Fisheries since Confederation, and the Dominion started out with the idea that they had sole control of the fisheries. That was accepted for some years, then by a long series of disputes, some of them found their way to the Privy Council, a sort of joint control of fisheries was set up, and now there is a very curious division of administration powers with respect to the fisheries. At least, that was the evidence of Dr. Found at Ottawa.

PROF. TAYLOR: Was it in 1928 or 1929 that they created a Minister of Fisheries for the first time?

COMMISSIONER DAFOE: It used to be Marine and Fisheries; that was the old title.

PROF. TAYLOR: Yes. Well, the next paragraph:



"Prairie producers have benefitted from heavy duties on butter, meat, eggs, sugar and grain."

COMMISSIONER DAFOE: Do you think the duties on wheat, -- the Canadian duties on wheat helped the Canadian grain grower in the west?

PROF. TAYLOR: Of course, we had very long discussions on that in 1932 at Ottawa; not so much the Canadian duty on wheat but the value of the preference to the western wheat grower, and as I recall it, two of the principal experts --

COMMISSIONER DAFOE: The benefit comes in from the external trade treaty and not from the preservation of the Canadian market, to the Canadian producer.

PROF. TAYLOR: Yes. Well, I can imagine that were there no duty on wheat at all, -- I do not think, as a regular thing we would have a large import trade in wheat, but there might easily be substantial sporadic imports of wheat. I do not think the price of wheat in Canada is materially affected, by the duty on wheat.

COMMISSIONER DAFOE: No, I do not think so.

PROF. TAYLOR: The duty on butter, however, has resulted in a very substantial increase in price and in production.

COMMISSIONER DAFOE: You do not suggest in that paragraph that the high duty which was placed upon butter from New Zealand and Australia to the disadvantage of the industries in Ontario, was imposed as a result of pressure from western Canada, or that the west were particularly insistent upon that? That was predominantly due to Ontario pressure.

PROF. TAYLOR: As I recall it, the western dairy pools were before the tariff board.

COMMISSIONER DAFOE: They were in the drive all right, I do not deny that, but I would say if you were to appraise





the force of the pressure, the effective pressure came from this province.

PROF. TAYLOR: You, sir, are in a much better position to appraise the pressures than I will be, but as I recall it, there were undoubtedly representations from eastern townships and from western Ontario, and certainly from the western dairy pools as well. Whether it is possible to estimate the influence of those three on the action of those responsible, I do not think it can be done. But the result certainly has been to substantially increase the production in the prairies much more relatively than in any other part of Canada. The prairie production, for example, in 1930 was 47,000,000 pounds of creamery butter; in 1935 it was 68,000,000 pounds. Now, there were increases in Quebec and Ontario as well, but relatively not as great. The western production is over 40 per cent increased, the Ontario about 30 per cent, and the Quebec production about 20 per cent increased.

COMMISSIONER DAFOE: The experience in the west has always been that when there is a good price for wheat, butter production falls, and when the price of wheat drops and the markets are closed, then they go into the production of butter. It rises and falls. The statistics show that.

PROF. TAYLOR: The statistics are given very fully in this book that came out a few months ago.

" British Columbia has benefitted from the tariff preferences to Canadian ports, from the assumption of costs of fisheries by the Dominion, from inclusion of its principal products in practically every trade treaty signed by Canada, and by the direct protection of most of its products."

COMMISSIONER ANGUS: Is there much importation through British Columbia ports for re-exportation to the rest of





Canada?

PROF. TAYLOR: Frankly, I must confess I have not had time to digest Dr. Carruthers' very voluminous evidence, and I think much of the detail in Dr. Carruthers' argument is not in the brief at all, it is in certain documents. I have seen a copy which is about 4 inches thick, his economic record of British Columbia. I would have supposed they would have been greater than Dr. Carruthers' figures seem to indicate.

On the next page:

" A customs tariff affects prices and costs. Some producers benefit more and some less; some have to bear higher costs than others. Many producers benefit in one respect and lose in another."

That is certainly true of large sections of Ontario's secondary manufacturing industries. In some cases the tariff on the finished article is less than the tariff on the items going into the manufacture of that article.

" The way in which, and the extent to which these costs and benefits are distributed is a problem to which no satisfactory answer has yet been found."

I am happy to be on the side of Dr. Carruthers this time. I read his evidence the other evening and he agrees the problem is practically insoluble,--the measurement of the extent to which costs and benefits are conferred, or the particular effect of a tariff on a price. I was for two years a student of Professor Viner, and Professor Viner was an expert on the U.S. Tariff Commission for a good many years. I recall him saying on one occasion that the whole corps of experts, following nine months investigation were unable to decide to within one dollar the added cost to a suit of clothes resulting from the American Woollen Tariff.



I give here three estimates given, I submit, by men who are competent in their field, men who know what they are trying to do; Prof. Rogers, Prof. McGregor, of Toronto, and the Manitoba Economists. Prof. Rogers in the 1934 brief of Nova Scotia, estimated the cost to the Prairies at \$86,000,000. Prof. McGregor, in the Canadian Journal of Economics, 1935, using the same basic method of approach as Prof. Rogers, arrived at a figure of \$33,000,000. I should say he did not arrive at that figure, but it is the obvious deduction from the figures he gives. You won't find the figure \$33,000,000 in Mr. McGregor's article, but I submit it is the obvious mathematical deduction from his figures. I mean an average competent man coming at it generally speaking, in the same way, arrives at a figure of \$33,000,000. Then the figure in the Manitoba brief, using an entirely different method, the Manitoba brief arrives at a figure of \$58,000,000. I merely put those three figures side by side to show that the problem, I suggest, is still insoluble, as to how to measure the costs of a tariff.

The western argument might also take the form, in part, that the Canadian wheat-grower is at a relative disadvantage in the world wheat markets because of the Canadian tariff, and I observe in passing that the principle competitors, Australia, Argentine, and Russia, have tariffs or other protective devices that are substantially higher than the Canadian.

I will turn, now, if I may, to some comments on the details of the Manitoba argument. The details of the way in which the figures have been compiled are very inadequately exposed, for the purpose of anything like detailed criticism, and the mass of detail is so great that only random checks have been possible. The details are not sufficiently accurate in the printed representations that we could possibly check up to find out whether the prices were accurately quoted or





whether they were representative prices. Manitoba, as I understand it, builds up an amount of \$58,000,000 as the cost of the tariff to the western provinces, by comparing retail prices at a point in Minnesota and a point in Manitoba. This figure is reached by taking a representative farm budget, estimating the higher annual cost in Manitoba, which they take as \$100, - I think \$110. is the actual figure, - multiplying this figure by the number of farms on the Prairies, 290,000 which produces a total of \$29,000,000, and then that total is doubled, I think I am fair in saying on the unexplained assumption that the per caput burden on the urban population is equally great.

The three or four particular criticisms I have to make are these: The estimates consider only those items in which the Canadian price is higher. No credit is given or no reduction is given for the very large number of items on the list that are cheaper in Canada. I made a rather rough estimate and I make it about one-third of the items listed there were actually cheaper in Canada.

COMMISSIONER ANGUS: Is not the reason for that, - I am just guessing at it - that they were attempting to measure not the difference in burden between the American and Canadian tariff, but the burden of the Canadian tariff, and they assumed if the commodity were as cheap or cheaper in Canada then there was no burden that they could measure, Unless the cheapness was caused by the tariff. is there anything to take into account there?

COMMISSIONER DAFOE: They were trying to estimate the burden of the tariff. If the price was lower than in another country, then they regarded that as a fundamental situation which did not need to be commented upon, it was the load above this level which was imposed by the tariff. I do not associate myself at all with Dr. Grant's presentation, he will have to defend it as well as he can, but that was obviously





his idea.

PROF. TAYLOR: I do not want to quote the Australian Report all the time, but in the 1936 Report, Appendix 5, page 186, they say that both the Department and the Board therefore take the view that a deduction from excess cost should be made wherever the cost of the Australian product is less than the duty free imports.

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COMMISSIONER ANGUS: Does it not result in a method of measurement? The Manitoba study was really this: Suppose that the tariff were washed out at the frontier and we could buy in the United States, how much cheaper? Now, we would not buy the things that are cheaper with us anyway. Insofar as there is a burden there it is a burden that is imposed on the people of Minnesota by their tariff.

PROF. TAYLOR: If the tariff were washed out you would not have any difference in price at all, for the Canadian price.

COMMISSIONER ANGUS: Suppose the Canadian tariff were washed out?

PROF. TAYLOR: Well, I find it a little difficult to make the assumption of the abolition of the Canadian tariff entirely and no change elsewhere.

COMMISSIONER ANGUS: No, but the people in Minnesota, if they are paying more than the people in Manitoba, are suffering the same sort of a burden, but it was no part of the Manitoba case to cover that.

PROF. TAYLOR: Unless, as you say, there are any grounds for believing the tariff price in ~~Minnesota~~ was due directly or indirectly to the Canadian tariff. In the case of the oil probably that might be true.

Now, on page 82, sir, in several important cases definitely unlike commodities have been compared. In that connection I want to draw your attention to four particular items in the brief. In part four, page 25, of the Manitoba brief they make certain comparisons in rubber tires, and I am informed, sir, that the comparisons there are between different types of tires, that the \$11.75 quotation on a tire, American price, is the second quality. The Canadian item of \$16.80 is first quality, and the correct comparable price is not \$16.80 but \$14.45.



On the American item their tire, \$9.55, is a four ply tire; the Canadian price which has been put against it is a 6 ply tire. The correctly comparable price is \$11.55, not \$14.45.

On the third item under rubber tires, the \$6.70 American tire is four ply, the \$11.45 in the Canadian list is a six ply tire, and the correctly comparable price is \$9.15.

The excess cost of tires according to Manitoba's own method should not be \$9.80 but \$4.00 and that difference multiplied by 290,000 and then doubled is \$3,364,000.

I have, sir, that information in a letter. The tires compared are Goodyear tires as specified in the list and this is a letter from the Goodyear Tire & Rubber Company, setting out the facts. I suggest I should file it as an exhibit.

THE CHAIRMAN: Exhibit 310.

EXHIBIT NO. 310 - Letter from Goodyear Tire & Rubber Company.

PROF. TAYLOR: The second item, sir, B, on page 82, I just put in for the purpose of the record, the Manitoba brief itself makes no estimate of loss of that kind on what it does not regard as standard equipment, but they take the net prices. They give the price of an electric motor one third horse-power alternating current, as \$8.40 United States and \$21.50 in Manitoba. We are informed that the two most widely used one third horse-power alternating current motors have the following comparative prices: The first is an American motor at \$16.00 and the same motor in Canada is \$15.00, actually cheaper. The General Electric Company admit that that is not typical, or they agree that that is not typical. The second price however of \$18.60 for another





type of motor in the United States, the same article is \$26.00 in Canada, is a fairly representative item. And I have here, sir, a letter from the Canadian General Electric Company confirming those prices.

EXHIBIT NO. 351 -

Letter from Canadian General Electric Company.

THE CHAIRMAN: Does your information cover what motor could have been referred to as the \$21.50 Canadian given in the Manitoba brief?

PROF. TAYLOR: It does not give the make in that case. It just says electric motor, one third horsepower A.C.

The third item is for washing machines, which is on page 33. There again there is no make specified. It just says washing machines, Standard make, gasoline engine. And they take, in their first model which they give, the American price as \$84.50, the Canadian price as \$164.00. The comment of the manufacturer, sir, is that this statement is silly on the face of it. That is quoting from the letter which I will file in a moment. The duty paid price, the machine could be bought for \$84.50 in Hallett, Minnesota, taken up to the particular town in Manitoba, duty, freight, and sales tax paid for \$120, and here they are suggesting it would sell for \$164. in Manitoba. We find it difficult to understand that. I have had handed to me a large number of mail order catalogues and sheets and newspaper advertisements showing the prevailing prices for standard, moderately inexpensive washing machines, and the prices range from \$99.50 up to \$124.50. However, rather than try and compare any given type of washing machine sold in Manitoba with some unknown or unspecified type sold in Minnesota, I preferred to take the estimate of the duty-paid cost of that machine in Manitoba, were it brought in from Minnesota, and if we make that correction, if we reduce the \$164.



to \$120 it would involve a deduction of over three and a half million dollars from the Manitoba brief. That is from a letter, sir, from the Beatty Washing Machine Company in Fergus, giving the facts I have given you.

EXHIBIT NO. 312 -

Letter from Beatty Washing Machine Company, Fergus, Ont.

The fourth item, sir, which we re-checked was the overshoes on page 37. They are recorded there as \$1.98 in the States and \$3.29 in Manitoba. The correctly comparable price we are informed by the B.F. Goodrich Rubber Company, Kitchener, - they are not quite sure which type of shoe they are referring to there, they give us two prices here, one is a four buckle cashmerette excludor shoe at \$2.80 in Canada, \$2.35 in the States. They also have another type of overshoe at \$2.10 in Canada and \$1.85 in the States. Assuming the one with the slightly higher differential, the fifty cent differential, instead of the \$1.31 differential which appears in the Manitoba brief, it would indicate a further reduction of nearly a million and a half dollars. This is a letter from the B.F. Gooderich Rubber Company of Kitchener, on the price of overshoes.

EXHIBIT NO. 313

Letter from B.F. Gooderich Rubber Company, Kitchener, Ont.

On the three items - there are four items there but only three are taken into account to show that there was an error in the compilation, on the three items of tires, washing machines and overshoes, simple mistakes in pricing account for errors of \$8,328,000 or 15 per cent of the computation of \$58,000,000.

The third point I want to bring up in connection with the Manitoba computation - I should explain, sir, we made certain random samples through the list there, we frankly admit it was on the items that seemed most





unlikely. There are items which we would have liked perhaps to have examined further but partly for reasons of time and partly for reasons of insufficiently full description of what the commodity was, we have not done so.

The third point I bring up is in connection with the sales tax, that the Canadian prices include of course 8% sales tax and in Hallett, Minnesota, there is no sales tax, there is no federal sales tax, there is no state sales tax in Minnesota, and there is no municipal sales tax in that particular town in Minnesota.

Now, the question there arises as to what difference that would make in the comparisons. Doubtless, I say, other forms of taxation in the United States are absorbed into the Minnesota prices but I suggest that it is probable not nearly to the same extent. And for this reason, among others, sir, that the United States has financed during the past few years to a much greater extent by particularly progressive taxation and by deficit financing, and that this particular progressive taxation is almost certain not to be reflected in prices, and the deficit financing has probably had nothing like the direct affect on retail prices, for example, that a sales tax is likely to have.

I think possibly certain rough approximations might be arrived at but they would take a good deal of time. I merely suggest that if the kinds of computations that were used in the Manitoba brief are to be used as a basis for further analysis, that something of that sort, some study of that sort, would have to be undertaken.

I suggest, of course, that a considerable portion of the farm budget is free of sales tax. Most of the food stuffs and I think a considerable part of the agricultural machinery is free of sales tax. I made, I





confess an extremely rough calculation, but I got the impression that perhaps as much as half of the farmers budget might be free of sales tax, and 8% on the other half would be about \$40.00.

Heavy claims, it is pointed out, have been made on items which are largely produced on the prairies. We have already discussed sugar this morning, but sugar is in here and I think harness, the largest manufacturing firm in the harness industry is in the West. Cement, the west I understand is entirely self-sufficient as far as cement is concerned. And petroleum products, they were 70%, as I recall, self-sufficient last year, except on certain type of lubricating oils. I understand this year or next year they will have an export surplus.

In the fifth paragraph we wish to call attention to the fact that the sample prices obtained are often highly unrepresentative. I left the statistics to go to practical experience to know it is hard to get really adequate samples, that you could profit by. For example, the fact that 60% of the claim under building materials comes from paint and shingle stain is, I suggest, a little --

THE CHAIRMAN: You need a great deal of it.

PROF. TAYLOR: Yes sir, to make up 60% of that load, that damages the validity of the estimate. Of the excess costs of household equipment 70% comes from the incorrect figure for washing machines, and in the food budget half of the claim is for prunes, raisins and coffee., and most of the rest for sugar. I do not want to appear to be too critical. The Canadian figures would indicate a consumption, I think it was a family of six, that was used, was it not, I think I saw in the evidence a family unit of six, with such a family unit the average



consumption in Canada would be considerably less than 10 pounds of prunes, not 30, and rather runs about 19 pounds of raisins instead of 25.

THE CHAIRMAN: Of course they have not as much fresh fruit on the prairies, you know.

PROF. TAYLOR: No sir, but I notice they did not even specify their consumption of apples either, which were cheaper there.

It seems to me also when you are building up a computation of the cost of the tariff or the cost of a protective device, you should not include in ~~that~~ what are pretty obviously purely revenue duties. It seems to me that there are four conspicuous items on the list there, coffee, prunes, raisins and oranges, none of which are grown or produced in Canada. A certain amount of coffee blending and roasting is done in Canada of course. As far as I know I do not think either prunes or raisins are produced in Canada at all, or oranges. And there is something like \$6,400,000 of that \$58,000,000 which I submit are revenue and not protective duties.

I say we have not had time to check much of the detail of these claims but enough has been said to show that the figure of \$58,000,000 is without a sound statistical or logical basis.

COMMISSIONER DAFOE: That estimate, of course, is for the prairies as a whole.

PROF. TAYLOR: Yes.

COMMISSIONER DAFOE: I have not seen the division that would pertain to the Manitoba claim, as far as the \$58,000,000, but I find in Mr. Brackon's statement, part 8, page 18, an estimate of the cost to Manitoba.

PROF. TAYLOR: Yes, I recall that.



COMMISSIONER DAFOE: "Cost to Manitoba - In the case of Manitoba the tariff policy, as now in effect in Canada, has been found to impose a burden of 15 million dollars per year upon our people."

Perhaps that might as well go into the record in connection with this discussion.

PROF. TAYLOR: What page, sir?

COMMISSIONER DAFOE: Page 18 of part 8, "Cost to Manitoba".

( Page 7794 follows )





PROF. TAYLOR: Yes, I see, as I understand it, Manitoba is just presenting its share of the \$58,000,000.

The British Columbia brief in respect of the tariff is built largely on a concept of the barter terms of trade. I would like, sir, to alter the next sentence in the brief. I say, "No adequate explanation is given as to how these ratios are calculated." This was written some time ago, and since then I have had an opportunity of reading the B.C. brief with more care. There is a great deal more detail in the appendices as to how these ratios are calculated. There was a good deal of detail there, though I still think not sufficient detail to judge what these ratios do mean.

THE CHAIRMAN: Instead of the word "adequate" you would say "insufficient"?

PROF. TAYLOR: Yes, I would say, "Insufficient information". In the appendix, in the tables at the end, I found a good many tables and charts which had not come to my attention the first time I went through the brief quickly. This whole conception, though, of the barter terms of trade is not one which is a very precise tool. I have referred in the brief to two recent criticisms of the whole concept of the barter terms of trade. The first reference is Mr. McQueen's article on "The economic aspect of federalism" in the Canadian Journal of Economics, 1935. This has no reference to Dr. Carrothers, at all, Mr. McQueen is just taking up the general argument and shows how it is rather an unprecise tool. The reference to B. K. Sandwell's article is a criticism of Dr. Carrother's statements. I find it a little difficult to understand what Mr. Carrothers means when he says that the barter terms have always been against British Columbia. He only goes back to 1926, but he says he has made certain general studies further back.



COMMISSIONER DAFOE: He tries to estimate the imports or what was imported into British Columbia and the exports. In the brief of argument on page 28, there is a summary and British Columbia bought in Canada, 1935, outside of British Columbia, commodities costing \$66,000,000. British Columbia sold to other parts of Canada \$25,400,000, \$8,730,000 being gold bullion. He is working out a balance of trade,

PROF. TAYLOR: That is the balance of trade, but barter trade is the ratio between the price of the principal exports and the price of the principal imports. I do not see how this ratio can be continuously adverse. I quite understand that the barter terms of trade might get better or worse, but to say that the barter terms of trade have always been adverse is meaningless. He is trying to apply the balance of trade rules which are applied between countries between British Columbia and the different parts of Canada. I quite understand his arguments as to the balance of trade. I can see, how over a period of time it would move, obviously or inevitably up or down, but I cannot see how over a period of time it would always be adverse to you. I would point out to you the way in which the curve behaves. 1926 is not an entirely normal year for British Columbia.

Now, the barter terms of trade will always move against the producers of primary products in periods of depression. Primary products have more flexible prices than manufactured products. This is true in almost every country, countries like England as well as countries which have protection. It is possible to work out a comparison in a case like that and say what the difference is between Canadian exports and imports, but there is a difference in attempting to establish barter terms of trade between British Columbia and eastern Canada. I suggest if it is



a question upon which much weight is put, the secretariat should be invited to compute the barter terms of trade between our country and the rest of the world. It will be found that the curves are extremely similar. I do not put the figures in because I did not work them out very carefully. I did a good deal of work on the barter terms of trade a few years ago and submitted studies to Economic History.

THE CHAIRMAN: What is Mr. Sandwell's point of view in the article to which reference was made?

PROF. TAYLOR: Mr. Sandwell, apart from criticising barter terms of trade, attacks this whole suggestion of putting up even statistical boundaries around provinces and making nice calculations on the imports and exports by areas. The general tone of his article is along that line. He thinks it is not conducive to national unity to think in these terms. I am not accepting these views, but in the course of his article, he does refer to the literature on barter terms of trade. Perhaps I should say that immediately following Dr. Sandwell's article there is a rejoinder by Dr. Carrothers. I did not put it in, because both articles are together.

THE CHAIRMAN: Where economists disagree, what is a poor Commission to do?

PROF. TAYLOR: All I am pointing out is that the whole concept of barter terms of trade is not a good method of analysis. I think it shows certain broad trends and I entirely agree with Dr. Carrothers, of course, that any area depending substantially on the production of primary products is going to have a worsening of its terms of trade in years of depression. On the other hand, these areas are likely to have the terms of trade moving very heavily in their favour on the upswing. Now, it happens that Dr. Carrothers' period covers, primarily, the depression,





from 1926 on. While there are three years before the depression, those happen to be years when raw material prices were slipping all over the world.

The Nova Scotia brief, as I understand it, relies heavily on Mr. Rogers' estimate of 1934. I merely refer you there to Professor McGregor in the Canadian Journal of Economics, 1935.

We have already said that if disability apparently resulting from federal policy is to be made the basis of claims, then it is total federal policy and not one aspect of it which should be considered. We have made no attempt to list all those policies or assist in the details. We merely indicate some of them which, if we are going on on this basis, we think should be rather seriously studied. These are, railway policy, freight rates and railway deficits. In that connection, sir, the question was raised yesterday or the day before concerning the allocation of the C.N.R. deficit in those earlier calculations. There was a suggestion put forward that possibly another basis of allocation was on per mile of track. I have had this worked out and, as I thought, it is a good deal more adverse to the prairies than the basis on which I put it. It would allocate a considerably larger share of the deficit to the prairies and a considerably less share to Ontario.

THE CHAIRMAN: You might file it as an exhibit.

PROF. TAYLOR: Would you prefer me to have it typed out? You could give it a number now.

THE CHAIRMAN: Yes, if you would, please. It will be exhibit number 314.

EXHIBIT NO. 314:	Allocation of C.N.R. deficit according to per mile of track.
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PROF. TAYLOR: I quote at this point in the brief the opinion of one who might be called a representative westerner, Professor McQueen. He expressed this opinion



in a paper he read to the Canadian Political Science Association at its Kingston meeting three years ago . Professor McQueen who is now at the University of Manitoba, says;

"The west regards the railway deficits of Canada with almost complete equanimity. They are regarded as an offset to the cost of the tariff and the west will continue so to regard them... Sir Henry Thornton in evidence before the Duff Commission said 'You can have low freight rates and more taxes to pay in the way of deficits, or you can have remunerative freight rates and less taxes; but it cannot be done both ways.' With tariff policies such as they are, the west favours the first alternative."

Apart from the railway deficit, the question of the heavy debts incurred for canals and other aids to navigation on the St. Lawrence-Great Lakes route--these are, I submit, largely developed for the proper purpose of cheapening the cost of transportation from the western plains to tidewater. Then, in the third place, I suggest that the Commission give serious consideration to the heavy transfers which have been set out on some of the earlier pages of the report. I believe we said that there was something like \$75,000,000, or \$80,000,000 a year transferred through the operation of Dominion public finance from Ontario to the Maritimes and prairie provinces. It seems to me, if I might just make this statement in that connection, sir, yesterday morning Commissioner Angus was quoting some further remarks from Professor Adarkar. I just wanted it to be in the record that the quotation he gave from Professor Adarkar is contained, I think, rather fully in that paragraph on page twenty-two, where the following statement is made:





"The province of Ontario does not suggest that in a federal country there should be no such transfers. Ontario, on the contrary, believes that in a federal state, a considerable amount of such transfers are both inevitable and just; and Ontario has never shirked its fair share of responsibility in carrying the burdens of Confederation."

We entirely agree with the passage which Mr. Angus quoted expressing Professor Adarkar's point of view along similar lines.

Returning to the brief, page 84, I read:

"We make no attempt to set up a statement of profit and loss because we do not believe that is a logical or possible basis for federal finance. If, however, such a statement is to be used, we must insist that it be accurate and complete, and if such 'accounts' are completed it is quite possible that the balance of advantage will be found to lie outside of central Canada."

COMMISSIONER DAFOE: On the point of the difficulty in allocating these charges, there would be a very special difficulty in trying to allocate the responsibility for the construction cost of our Transportation system. You could develop one theory of it that British Columbia is responsible for the building of the trans-continental railway. British Columbia rather flared up at that suggestion in the hearings at Victoria, and quite properly. Then, there is the theory that the cost of the trans-continental railway could, in some way, be charged to the west. However, the west would have been developed without a railway to eastern Canada. It could have been developed by railways from the south just as British Columbia could have had ample transportation facilities without the





road through the Rockies. In that case, there would have been no Dominion of Canada. In all these questions of construction the expenditures have to be charged to capital account. The west has a considerable advantage in that connection because the west threw into the pot 31,000,000 acres of land. However, I think it is quite impossible, as I think you suggest, and I think these expenditures which were entered upon for the purpose of creating a nation must be borne by all sections.

PROF. TAYLOR: That is specifically my view, sir. We did not think you could get anywhere by breaking down the costs and allocating this to that group and that to another group. The basis of transfer within a federal state must be based on something other than that. You cannot find any formula nor is there any statistical way of measuring the advantage or disadvantage.

COMMISSIONER DAFOE: You must get at one's ability to pay and consider the taxable capacity of the people.

PROF. TAYLOR: In trying to estimate the taxable capacity there are certain things which ought to be taken into consideration.

THE CHAIRMAN: It is so near to one o'clock that I think we had not better start on monetary policy.

PROF. TAYLOR: Very well, Mr. Chairman, and I will try to be very brief this afternoon.

THE CHAIRMAN: No, we do not want you to hurry at all. These two questions have bulked very large in the briefs and we want all light and thorough discussion we can possibly get upon them.



AFTERNOON SESSION

The Commission met at 2.30 p.m.

MR. WALTERS: Mr. Chairman, and Members of the Commission, this morning I read an extract from the budget speech of the late Honourable J.A. Robb, and I have had a search made of Hansard. While I have not yet located some expressions of opinion which I think were uttered and which are contained in Hansard, I have found an answer to the quotation this morning. The answer is given by the Rt. Hon. W.L. Mackenzie King, which, with your permission, I would like to read.

THE CHAIRMAN: Thank you.

MR. WALTERS: This is Debates, House of Commons, Session 1928, Vol. 11, pages 1243-2672. Many books might be filled with some objections that have been raised. I notice that in 1926 Mr. T.L. Church made a strong plea, urging just what has been urged here, and in the Dominion-Provincial Conference called by the Rt. Hon. R.B. Bennett, the same claim was put forward and signed by Mr. J.T. White, former Deputy Treasurer, and Solicitor of the Treasury. So that it is not new, and it does not represent the opinion of any particular political party. The Hon. Mr. Robb said:

"As an added encouragement to business, as a measure of relief to tax-payers, and to those provinces where local income taxes are levied, it is proposed that the Dominion shall continue gradually to lighten the load in the income tax field. Last year a reduction of 10% in all rates of income tax was announced. To-day we are able to go a step further to propose that the income tax payable by individuals be reduced an additional 10%."

Then on page 1280, speaking on the budget, the Rt. Hon. W.L. Mackenzie King made this statement:

"May I give to the house quite frankly the reason



"that actuated the government in reducing the income tax to the extent that this has been done in the present year? As hon. members know, we had in the fall of the year a conference between the provinces and the Dominion where questions of concern to the provinces were discussed very freely with the several members of the government. One question discussed was that of taxation and more particularly the delimitation of the fields of taxation. Representatives of the provinces pointed out that, while the Dominion was entitled under the constitution to raise taxes by indirect methods, such as the customs and excise, and also by direct methods, the provinces on the other hand were restricted to direct taxation, and being restricted to this field they were finding it more and more difficult to raise the revenues required for the increasing services which they were being called upon to perform. The point was stressed by the provinces that in recent years many obligations have devolved upon them which require a degree of expenditure which they did not believe was wholly contemplated at confederation."

And in answer to Mr. Woodsworth, the Rt. Hon. Mr. King said in part as follows:

"As I have said the government was to some extent impressed by the plea made to it by the premiers of some of the provinces in regard to the tax on the income of individuals. I remember the Premier of Manitoba suggested that not only should we give to Manitoba the tax which comes from the income of individuals but that we should collect it as well and hand over to the Province the collected amount."

THE CHAIRMAN: Thank you.

COMMISSIONER DAFOE: In 1928, Mr. Walters?





MR. WALTERS: Yes.

THE CHAIRMAN: Mr. Taylor.

PROF. TAYLOR: Mr. Chairman, I have here a copy of Exhibit 314, which I had typed out.

Then page 84, Mr. Chairman, a short section on monetary policy. The Manitoba Government, in its brief, submitted a computation on behalf of the wheat-growers of the three Prairie Provinces for an amount of \$281,000,000, covering a period of six years, or an average of \$47,000,000 a year, on account of loss of income due to the failure of the Dominion Government to adopt a monetary policy which would have put the Canadian currency on a parity with the Australian pound. I think the Australian pound was used at times as a sort of illustration, and at times it was used as a suggestion of a proper level.

COMMISSIONER DAFOE: In which sense do you use the word "claim", Prof. Taylor?

PROF. TAYLOR: Well, Sir, to avoid going over the ground covered this morning, in reading it now I used the word "computation". I have the word "claim" in the brief. I do not think it necessary to repeat the discussion we had this morning.

"It should be noted in the first place, that this is a gross amount. No deduction whatever has been made for increased costs of imports, or for the rise in internal prices, or for the increased cost of servicing foreign loans."

which would undoubtedly have occurred had the Canadian dollar been put on the sixty cent basis up until 1933, then it would have been on a forty cent basis from that time on, if it were to obtain parity with the Australian pound.

COMMISSIONER ANGUS: Your brief suggests that the currency depreciation might have taken place after some of the tariff regulations, which actually did increase the cost of



imports at that time.

PROF. TAYLOR: In the next paragraph it is stated there is a certain inconsistency between arguing in one case by making computation of the cost of the tariff, and then making another computation on the failure to devalue, in the sense you can have one or the other, but I do not see how you can have both.

COMMISSIONER ANGUS: Or whether the cost of imports was not actually increased at that time by tariff measures, which might not have been necessary with an assumed monetary policy.

PROF. TAYLOR: Well, in the rough calculation which we have put on the next page, I have taken the actual price levels that did prevail in the two countries, which would allow for such rise as did occur in Canada from the tariff policies of 1930 to 1935.

On page 85, Mr. Chairman, I have set out in tabular form the actual wholesale price level which did obtain in Australia and in Canada in the years 1931 to 1936. In the third column the percent difference is the percentage difference between the Canadian - Australian level, in each case the Canadian level being that much lower. The fourth column is the Dominion Bureau of Statistics compilation of the recorded value of retail sales in the three Prairie Provinces, and had the price level gone up by the amount indicated in the third column, there would have been the additional amounts indicated in the final column.

COMMISSIONER DAFOE: I suppose the argument would be made there that in the other countries there was a time lag before the domestic price overtook the devaluation.

PROF. TAYLOR: Yes, that would be in the first column, the time lag is in there, that is the actual price level.

THE CHAIRMAN: It shows an ascending price from 1933 on.





PROF. TAYLOR: Yes, the price is practically unchanged in 1931, 1932, 1933, and goes up slightly. In Canada the price level continued to fall rather heavily in 1931 and 1932, and then rose in 1933.

COMMISSIONER ANGUS: The prices include both the imported and the homemade articles?

PROF. TAYLOR: Yes, this is the general price level. In the Manitoba case, - I am not sure I can put my finger on the actual quotation, it might have been in the course of the oral argument, - they do refer specifically to a price level similar to the Australian price level. May I make this further qualification, that there is the relationship between the wholesale price level and the retail price level, it is not always constant. I found it impossible to get a comparative retail price index for Australia as compared with Canada.

COMMISSIONER MacKAY: Is there good ground for believing, Prof. Taylor, that the Canadian price level would have behaved similarly to the Australian price level under those conditions, the other factors being nearly equal?

PROF. TAYLOR: Yes, I would think so. Of course, both countries substantially increased their tariffs; the Australian tariff was increased very sharply and a larger number of embargoes and trade restrictions were imposed than in Canada, so that the behavior of the tariff is substantially similar in the two countries. The nature of the two economies, - the two economies are in the same general class. In Australia, of course, their one big export is wool, and wheat is the second export **there**. With us, the first export is wheat and the next export of importance are pulp and paper and base metals. The two countries are sufficiently comparable, I think, to make these parallel columns a reasonably fair statement. My point is not to show that the amount involved, when you take into account the inevitable rise in price that





would come through devaluation of currency, is of a very large magnitude, although it works out to \$222,000,000 in this table, over six years. By refinement, by taking retail prices, and so on, that can account for \$25,000,000 one way or the other, but you still leave a very substantial figure there, which accounts for more than half of the \$47,000,000 a year, which was the computation in Manitoba's case. If the \$222,000,000 is a reasonable approximation, that actually amounts to \$37,000,000 a year out of the \$47,000,000.

Then the Manitoba case in the second instance did state that there would be certain increases in the cost of servicing loans, and I thought it might be as well to have on record some indication of the magnitude of the figures involved. There are, and there were in 1932, \$477,000,000 of Canadian, Dominion and Provincial securities outstanding, which were payable in London. In that case, had we devalued to the limit of the Australian pound instead of having a slight advantage in paying in London, we would have had a considerable disadvantage. Of the \$477,000,000 of Dominion and Provincial debt payable in London, there is \$1,112,000,000 of Dominion and Provincial securities which are payable in New York funds, either straight New York funds or optional payment bonds, - optional in the hands of the holder of the securities. There again, it would be increased by approximately 40% of the cost of servicing those loans. In addition to that, there is a sum in the neighborhood of \$800,000,000 of railway securities with either straight New York issues or optional features in them, and several hundred millions - that is, I confess, a vague figure - of securities of municipalities, public utilities and other industrial and commercial concerns, and the figures involved are figures of very large magnitude.

COMMISSIONER DAFOE: Have you statistics of actual pay -



ments having been made, principal and interest?

PROF. TAYLOR: I have them for the Province of Ontario. The figure is within a few thousands of \$7,000,000 spread over three years. It cost the Province of Ontario \$6,973,000 in the years 1931, 1932, 1933, and 1934, and that is a net figure; that is the cost of New York premiums minus the gain of sterling payments.

COMMISSIONER DAFOE: Mr. Bennett said twice in the House of Commons, in defending the monetary aspects of his tariff legislation, that Canada had to pay on an average a million dollars a day to the United States.

PROF. TAYLOR: Those figures, if I recall them, were based on a compilation prepared at the time by A.E. Ames & Company, and for two or three years in a row it was somewhere between \$320,000,000 and \$370,000,000 of principal and interest payable. Now, some of those principal sums undoubtedly were refunded in the New York market, and therefore we were not called upon to pay the premium, but that figure of \$1,000,000 a day was a substantially accurate figure. It was well over \$300,000,000 a year. Now, on interest alone, of course, it was less than that.

In the next paragraph I call attention to the fact that monetary policy, like trade policy, must be considered as a whole. That some credit, shall I say, should be given to the Dominion Government. For example, its policy was designed to reduce interest rates, and I suggest, for instance, that that policy for reduction of interest rates, which included the action in November, 1932 of issuing \$35,000,000 of treasury bills to the banks to increase their cash resources, the action over two or three years ago by Government initiative getting the savings bank rate down from  $3\frac{1}{2}\%$  to  $1\frac{1}{2}\%$ , - that was done on the urging of and with pressure from the government. Again, in June, 1934, an additional \$50,000,000 of notes were issued to meet ordinary budget expenditure, which





again had the effect of a mild dose of inflation, which again brought the cash reserves up and the down pressure on interest rates increased. Without for a moment trying to take it upon myself to defend the Dominion Government's policy, I doubt if the Dominion Government could have followed a policy of cheap money as successfully, or at all, possibly, had it devalued on the Australian scale. The Australians did in a sense, make the best of both worlds, but there was this difference, that there was probably even less of a money market in Canada than in Australia at that time. We had no central bank, and the Australians were in a fairly simple position of dealing with a single creditor, - Great Britain. We were in a rather different position, of dealing with two creditors, whose exchanges were going in opposite directions, and I submit that, considering the difficulties of the financial mechanism involved, that the Dominion Government could not have followed this cheap money policy successfully. It had, at the same time, taken the rather accute risk of a sharp devaluation policy in the foreign exchange. There, too, I am sure you will get somewhat conflicting advice from different brands of economists, but I think that is <sup>a</sup>/reasonably orthodox, and generally accepted view. I am not saying that the Dominion policy is perfect, but taking things as they were, with the mechanism they had at their disposal, I do not see where they really could have done much better under the circumstances, and knowing what they knew in 1932, and not what we think we know now.

I conclude, Sir, by saying that even the claim that deliberate devaluation would have conferred benefits of \$47,000,000 per annum on the western wheat-grower I feel cannot be accepted in just that form. It rests pretty clearly, and I think quite explicitly in their case, on two assumptions. The first is that Canadian devaluation by 40% would not have affected the sterling price of wheat. Dr. Upgren was examined





on that I understand as I read the evidence, and he had put forward that it might have had some effect but he did not think it would have had any substantial effect. That, of course, must be always a matter of opinion, but I think the more generally accepted view in Canada would be that devaluation might have had quite a marked effect on the sterling price of wheat, that the wheat position in 1931 and 1932 was such that the holders of wheat at that time would almost have tried to get out at what they considered a decent Canadian price, and had the devaluation raised the Canadian price substantially I am certain that there would have been very largely increased offerings on the market, and the price of wheat would almost certainly have gone down quite significantly, and it would not have to go down very far, of course, - a penny or twopence a bushel, or three or four cents a bushel, can play a lot of havoc with \$47,000,000.

The second assumption that is quite explicitly made in the Manitoba case and in the examination, or the evidence, is that deliberate devaluation by Canada would not have affected the monetary policies of the principle competitors, chiefly Argentine and Australia. It seems to me that deliberate devaluation by Canada of a full 40% in those years would very possibly have resulted in the further devaluation in the case of Australia. It is almost certain, I think, that devaluation in Canada would substantially have affected Argentine's policy, either by further devaluation or by achieving the same result by some different device. But Argentine was in a position, as I understand it, in 1931, 1932, and 1933 where it simply had to sell its wheat, and would have done almost anything to keep its wheat crop moving out. Deliberate competitive devaluation then, is a very dangerous game, in my opinion, the end of which cannot be foreseen from the beginning.

And the last statement of all that I make, Sir, is one



to which I attach a considerable amount of importance, although I have not given much space to it in the brief. It should be pointed out that devaluation, had it had the effect assumed by the Manitoba brief, had it actually increased the price received by the farmer and not interfered with the quantity of wheat sold, would almost certainly have increased the production of wheat, thus aggravating the wheat problem in the long run, and postponing the establishment of a sounder relationship between wheat production and the currently available world consumption. I think that is very clear in the case of Australia. Australia's wheat production rose nearly 40% in the years 1931, 1932 and 1933 as compared with the average of the previous five years; from 96,000,000 bushels a year to something like 124,000,000. I have the figures here; I took the figures from the Official Journal of the Economic Society of Australia, March, 1935, page 40, in an article on farm production, by Dr. Gibling. The actual increase was from 140,000,000 bushels production to 195,000,000 bushels production. Their exports showed an increase of about 28% from 96,000,000 to 124,000,000. That is comparing 1924-1929, in the case of the lower figure, with 1931, 1932 and 1933 in the case of the higher figure.

COMMISSIONER DAFOE: I think that that inference might be questioned, because the acreage of wheat was pretty well at its maximum in those years. I doubt whether any stimulus other than that of a very profitable rate for wheat would have led to an enlargement of acreage, and the natural increase which they would have got in wheat under the suggested devaluation would still have left the price which they got very unsatisfactory, from their point of view. But you argue that it did not really represent the cost of production.

PROF. TAYLOR: My point, Sir, is, I think the benefit would actually have been very very slight, but even if they





had got the full 40% increase in the price of wheat - even if the sterling price had remained constant, there would have been no further competitive devaluation by the other countries; if they had got everything that they assumed they would have got, I think the effect would have been then to not stimulate the production by 40%, but I think it might easily have had a very significant influence on the production of wheat.

COMMISSIONER DAFOE: It is a matter of judgment.

PROF. TAYLOR: Yes, I quite agree with you, but it is on such matters of judgment that a policy like this has to rest, and it is a matter that is pretty difficult to see the end from the beginning, when you start competitive devaluation.

There remain just two points I want to take up, if I may, on two phrases that are constantly recurring, or recurring very frequently in the presentations, and in the oral evidence. These are the phrases: Taxable capacity, and provincial or national income. Both these phrases are phrases which are usually used without any very precise meaning, and when you come down to try and define with reasonable precision what you mean by taxable capacity or what you mean by national income, it becomes very difficult indeed, - that is, give a definition which has any practical usefulness. I will not bore you, Sir, with a lot of authorities, but Canning, Lawrence, and Joshua Stamp, all more or less gave up the attempt to define, with any precision, what is meant exactly by taxable capacity, chiefly because it all depends, or largely depends, on how you spend the money you raise in taxation. To put it at one extreme, in a completely communistic state the taxable capacity is the total production. That is, you can conceive a state where everything is taken in taxation, and of everything entering into the consumption standard of life. That is putting it at one extreme. But in a community





which spends very heavily on useful and productive and non-wasteful services, the taxable capacity there is much higher. Put it this way, if two countries, - if each have a taxation which is 20% of social production or social income, it by no means follows that the taxable capacity and the tax burden is the same. In one case a considerable part of the expenditure may be returned within the community in the form of payments of various sorts. If, of course, in one community a large part of that is spent on service of an external debt, is a real diminution in the taxable capacity. It all depends then, on how the money is spent, and usually, I think, what is meant by the term "the limit of taxable capacity is being met", is really, so to speak, a political limit. In other words, a further rise in taxation would have certain unpleasant political effects. The taxable capacity is also related, of course, to the relative evenness or unevenness of distribution of income among the individuals within the community, and that also throws some light on the type of tax structure suitable to different communities. In other words, the severity of taxation cannot be measured solely by rates per capita, - I quite agree with that, - nor do I suggest can severity of taxation really be measured by the percentage of the regional income or social income taken in taxation. That must be qualified by a rather careful study of the tax expenditures as well as the tax collections, I mention these points, Sir, because I assume studies of that sort are being made on behalf of the Commission, and I just want to have these matters on record. I have very high regard for those of the Commission Secretariat who are doing this work, and I am quite sure they have these considerations in mind.

The other phrase I want to refer to is this phrase of "social income" or "regional income" or "provincial income" or "national income". That is frequently identified with the



net value of production. Now, where you are comparing the same community over a short term of years, the net value of production is probably a reasonable indicative of the rise and fall in the social income, or if you are comparing two regions with substantially the same economy, I think that is a reasonably fair basis of comparison. But where you are comparing two very different economies, - an agricultural community on the one hand and an industrial community on the other, or even two agricultural communities one of which is on a business basis, such as a large part of the wheat-farming in the west, and compare that with an agricultural community which is largely mixed farming, the net values of production need to be qualified and corrected by a number of things. Some of those have already been brought out in evidence at other hearings and on this hearing. For example, there must be allowance for income which does not appear on the market place, - that is, the consumption of goods produced on the farm itself.

THE CHAIRMAN: How is that arrived at, Prof. Taylor?

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PROF. TAYLOR: It must be extremely difficult but I suppose it could be done. I have never tried to do it myself, sir, but I know how I would at least start going at it. I think you would want to make some estimate, perhaps by a simple method of the ordinary behaviour of a typical Ontario mixed farm, shall we say, and even that is not safe over a long period of time because over the prosperous years, I am sure, you will find many farmers who sold their milk and bought their butter. But in the last few years they have probably been doing a good deal more of domestic production within the farm itself.

Now, I am not suggesting that net value of production figures are useless. Obviously they are very useful. And I do not say you could always get the correct statistical correction, but I think if you allow for what I call the error, the margin of error that is there, and could make some allowance, even though the allowance is not very precise, you could get a measure of the social income that is of some considerable use in arriving at certain broad conclusions.

Another obvious correction in regional incomes, I think, is for the net inflow and outflow analogous to the balance of international payment account between two communities. If a community is unbalanced, heavily a debtor, obviously it is not free to enjoy the net value of its income, a certain amount of it has to be sent out to pay its debts. As to which areas of Canada are debtor areas we have not, as far as I know, published information of that sort of any high degree of reliability. Again, I think certain broad indications could be discovered by examining the tax records and other records that are available perhaps in Ottawa.





Undoubtedly I assume that Saskatchewan is pretty heavily a debtor area. That is, the debts of Saskatchewan are held in substantial quantity outside of Saskatchewan. If the debt is held internally, for the purpose of this calculation, it makes no difference. But I think it is certainly true also that Ontario is a debtor region in the sense that the inflow of income, chiefly on interest account, is probably a good deal less than the outflow of payments to non-residents of Ontario, chiefly of course, non-residents of Canada. Some indication of the measure of that can be arrived at by, it is a very rough indication, but there is a table, you recall, of the unearned income received by residents of Ontario; in 1931, '32 it was \$82,000,000. That is part of an exhibit, 125, filed by Mr. Fraser Elliot. We also have a table, it is No. 7 I think in our appendix which shows the amount collected in Ontario from the 5% special dividend tax, that is the tax payable on interest and dividend payments to non-residents of Canada. There is something like six or seven million dollars in the last fiscal year. That 5%, if you multiplied it by twenty, gives you something over \$100,000,000 on interest payments. It is in table 7 in the appendix. It was \$4,900,000; that is 5%. It is presumed that at least about \$100,000,000 was paid out in that year, in 1935, '36 by residents of Ontario, that is both individuals and corporations, I gather. The \$82,000,000 of course that was received in unearned increment would be very largely paid within Ontario from one Ontario debtor to an Ontario creditor, but I believe there is no doubt, on balance, Ontario is very largely a debtor region, although it happens that our debt is chiefly to non-Canadians whereas I think in



Saskatchewan a substantial part of their debt is to Canadians in other provinces.

THE CHAIRMAN: What other large item would there be, Professor Taylor, than the interest in companies, on which there would be the 5% tax?

PROF. TAYLOR: It applies to all payments on interest accounts to non-residents. There is a substantial amount of English money, I understand, that is sent out here and handled by, I know for example of two or three legal firms, that rather specialize in handling English money. I am not so sure so much has been going on in recent years but certainly ten years ago very large sums of money came out from lawyers in England to their affiliates here in Toronto. That money is invested in mortgages, possibly in Toronto real estate, possibly in Saskatchewan real estate, Saskatchewan farms. And the Toronto firm is merely the go-between between the English investor and the Canadian borrower. That is an item which would be very hard to get at with any accuracy. We have some idea of the amount that goes through organized corporations such as the Canada Permanent or firms of that sort, but the amount that comes through the less organized part of the mortgage money market is pretty hard to estimate.

I think the transfers arising from the operation of public finance are a correction on the regional income. Also a very important item would be depreciation and obsolescence. The Dominion Government in its national system for Canada as a whole does make a very rough lump sum adjustment for what they call depreciation. The Manitoba estimates of income by provinces made no such correction. Now, I would suggest that the depreciation on industrial capital, depreciation and obsolescence





on industrial capital is considerably heavier than depreciation on the farmer's capital, because the farmer's capital is very largely in land and buildings. On the modern mechanized farm the machinery and of it is becoming more important and there the depreciation rate is fairly high, but some correction certainly should be made for depreciation and obsolescence which is much higher in an industrial area, I suggest, than in an agricultural area or in the case of a community that relies very largely on fishing, for example.

Then, when you run into a period of depression I think there are quite substantial losses that are not recorded in the ordinary net production. Losses on inventory and on bad debts. Taking a long period of decades at a time you can perhaps ignore that, but if you are comparing the burden of taxation with the ratio of income over a short period of years, where there is a violent downswing, even if you can <sup>not</sup> correct it statistically, I think you should bear in mind there is that correction to be made, the losses on inventory and on bad debts.

COMMISSIONER ANGUS: Would you allow the loss of abandoned farms and so on as a sort of deduction from income?

PROF. TAYLOR: Well, the loss on inventory and bad debts, - if I may for a moment?

COMMISSIONER ANGUS: Yes.

PROF. TAYLOR: ... is a very definite and immediate loss. There is of course a social cost in abandoned farms, it is more analogous to the next point I am going to bring up, the general social cost of unemployment. There again, I think on most of these points, if you can get any statistical measure at all, they must be rather rough approximations, but even an intelligently rough approximation is better than using uncorrected figures.





But my principal point then - this is a point which I think is not very generally recognized - is that Manitoba in estimating the income of the province took the net value of productions as one figure, added to it a figure representing the productions of those engaged in services. Now, obviously services are part of the total production but there is this distinction I think, that in an industrial community many of these services, taking the community as a whole, are cost rather than income. For example, there is no question that the services, those employed in the services of, shall I say, beauty shops and that sort of thing, is an increase in the standard of life, but I do not think that you could add to it, for example, the cost, the persons employed in the service, shall we say, of the street car system. That is a necessary cost of industrialism. It is true that the men who run the street cars are paid, but they are paid by continuing small deductions from the incomes of all the inhabitants of the city. Now, that is a point I think of very considerable importance in estimating the net income, the social income of a rather highly urbanized community as compared with a rural community. And I don't think you can add to the net value of production a figure based on everybody employed in the so-called service industries. I might further suggest that the customary standards of urban life require higher personal expenditures and so on, that is, in the customary type of clothing and housing and so on which again is practically an inescapable cost in an industrial area.

Well, sir, that is all I have to say. I would like to put those points of view on record for the use of



the Commission and its staff. And while I personally have every confidence in some of those whom I know are preparing some of those estimates, I think if the results of their estimates are to be used as a significant basis for recommendations, that we would like to have a look at the figures which they prepare and some indication of how they are prepared, and an opportunity of making further statistical criticisms of that seems necessary.

THE CHAIRMAN: Well, Professor Taylor, it is the intention that these reports will be furnished to all the provinces as soon as they are ready, so that you may have the opportunity of looking them over. We had hoped they would be ready for the first of May but I am afraid they will not be ready until the first of July, because they wish to get the benefit of all the submissions that were put in, as well as to conduct some other studies.

Thank you, Professor Taylor, for a very interesting exposition of these important problems.

Yesterday, Mr. Walters, and the day before, you referred to the appendix, Book 3, and referred to us a few of the tables. I think it would be helpful if we just had a running comment on the schedules in Book 3.

MR. LANG: I had arranged, Mr. Chairman, that Prof. Taylor might run through that for the benefit of the Commission.

THE CHAIRMAN: Yes. Then, Professor Taylor, if you would just run through Book 3 and give us a comment with each schedule.

PROF. TAYLOR: I had something to do with the arranging of this appendix. If it comes to an explanation of the particular figures Mr. Walters or Mr. Chater will have to explain them.

The appendix starts off with 21 pages where we have set out a short history of the principal taxes in Ontario.



There are certain minor taxes, fire marshall tax and so on which are not in this list here, and there was a wild land tax or there is . But we set out the history of the corporation taxes, the mining taxes, the income tax, succession duties, gasoline tax and motor vehicle licenses.

What we have done there, if I might start with page one, for example, on page one of the appendix we start with the corporation taxes instituted in 1899. We give you a short statement from the contemporary records, the apparent reason why the tax is introduced. We have undertaken in the following pages to recite when they were first used, all the more important changes in the rates or in the application of the Act, and coming down to the present rates that are in force. That takes us, in the case of the corporation taxes, down to page 12, I think. On page 12 we set out in the course of a page and a half the mining taxes levied in Ontario, the profits tax and acreage tax. There has not been very much change in those acts, it does not take very long to describe them. And the tax on natural gas is also under the mining taxes on page 13.

Then, on page 13 we have a similar story on the income tax in Ontario. This I may say refers only to provincial tax. There was an income tax of course levied by the municipalities before that time.

On page 15 and running through to page 21 is a description of a history and the principal changes in the succession duties since they were first introduced in 1892. That was the first tax that Ontario ever had, I believe, apart from the taxes in unorganized territory and the wild land tax.





THE CHAIRMAN: Some of the prophecies of those early days have not been realized. I remember in the first election following the passage of that succession duty tax, the late B.B. Osler defending it and saying that he expected and looked forward to the day when they would be so increased that the assessor, instead of coming around with the assessment notice, would bring a dividend cheque to the living. But Mr. Walters has not yet reached that point.

PROF. TAYLOR Well, this at least is accurate, because the preamble says it was ear-marked for asylums, institutions for the deaf and blind and so on, and I think the succession duty receipts do not do much more than take care of that still.

THE CHAIRMAN: There will not be much for those who are outside, at large.

PROF. TAYLOR: Page 21 is the gasoline tax.

THE CHAIRMAN: In connection with the succession duty tax, page 21 there is a provision I had forgotten was in the act: "By an Act of 1906 it was provided that one half of the receipts from succession duties, calculated on a basis of an average of the previous three years should be paid over to the University of Toronto for the maintenance and support of that institution." I see in 1914 the Act was amended to read "but that amount shall not exceed \$500,000 in any one year". I thought, as a governor of the university, I had discovered a large sum which we might ask Mr. Walters to pay over.

PROF. TAYLOR: Page 21, sir, is the gasoline tax and page 22 is motor vehicle licences. The motor vehicle licences include the invisible markers, I should say. Also I should say it includes the motor operators licence of \$1.00. It is the motor vehicle licences and



operators permits.

Turning to the tables now which are not paged but which are numbered in order, the paging runs only through the text of the appendix, from now on there is no pagination, but the tables are numbered serially.

The first table is the record taken from the public accounts of the ordinary revenue and expenditure, the surplus and deficit for each year since Confederation down to 1938. I should call your attention to the fact that 1938 is the gross interim figure and as Mr. Walters said the other day the surplus is approximately a million dollars more than that indicated in table one in 1938.

THE CHAIRMAN: That is, instead of \$3,000,000 ---

PROF. TAYLOR: It is about \$4,000,000.

MR. WALTERS :: It is not released for publication yet.

THE CHAIRMAN: We will keep it confidential, Mr. Walters. There is a very large jump in the expenditures from 1937 to 1938, as well as in the estimated income.

MR. WALTERS: Partly accounted for by relief.

THE CHAIRMAN: Mr. Walters, I see the jump is from \$71,000,000 to \$94,000,000 in ordinary expenditure. What general items would account for that?

MR. WALTERS: The reason for that, sir, is that when these statistics were prepared what we call the net figure was not yet available.

THE CHAIRMAN: But I am thinking of the increase from 1937 to 1938, from \$71,000,000 to approximately \$94,000,000.

MR. WALTERS: That is the figure to which I refer. We employ the British system of accounting here and return as gross revenue all receipts. For example, the Department of Prisons might manufacture thousands of dollars worth of goods for the hospital department, and it



is treated as an expenditure of one department and a revenue of another until the final figures are published and then these are taken as expenditure refunds and brought down to the net figures. There will not be that difference when the final figures are released.

PROF. TAYLOR: Table No. 2, which is 2-A, the "A" has no significance, it is just table 2, is a statement of subsidies paid by the Dominion Government, the ordinary subsidies for the purpose of government. We put against that a per caput figure based on the 1931 census return, and on the estimated population it shows that the per caput subsidies vary from a low of 86¢ approximately in Ontario to a high of \$7.46 a head in Prince Edward Island. With the exception of Ontario and Quebec they are all well over \$2.00 a head.

THE CHAIRMAN: Of course they are based on certain different principles.

PROF. TAYLOR: Yes sir, I quite understand that.

THE CHAIRMAN: Prince Edward Island is the largest.

PROF. TAYLOR: Table 3 was discussed in some detail two days ago. It is the distribution of Dominion tax collections. Tables 4, 5, 6 and 7 all deal with the Dominion income tax. Table 4 is the total income tax collections, individuals, corporations and the special 5%, divided by provinces. The actual collections by provinces are recorded, and the percentage collected from each province, the amount per caput and in the last two blocks of figures the variations above and below the average..

THE CHAIRMAN: I think Ontario shows up pretty well in that list.

MR. WALTERS: The changes in exemptions and rates are factors here.





THE CHAIRMAN: Yes.

PROF. TAYLOR: And the next three tables merely break down table 4.

THE CHAIRMAN: Just a minute, Professor Taylor. Under the heading of Ontario in the percentage, that is the percentage of the total income tax paid, is it?

PROF. TAYLOR: No, in the very last block of figures at the bottom of the page that 62.8 is the percentage that Ontario per capita collections are above the average collections. The light figures are above average, the heavy dark faced figures are below average, in those last two blocks.

THE CHAIRMAN: Thank you.

PROF. TAYLOR: Table 5 is the same sort of table exactly with reference to personal tax, the income tax from individuals, which includes personal corporations. That is what the Dominion income tax treats as incomes from individuals.

Table 6 is the distribution of the corporations income tax.

THE CHAIRMAN: I see British Columbia is travelling in good company.

PROF. TAYLOR: Yes, we are right neck and neck, sir.

Table No. 7 is the break-down of the 5% special tax on interest and dividends paid to non-residents of Canada. It can be seen there, sir, that practically 90% of it comes from Ontario and Quebec, to indicate that foreign capital is almost entirely concentrated or very largely concentrated in these two areas.

THE CHAIRMAN: I am surprised at the percentage in Ontario as compared with Quebec. I did not realize it was so much larger in the percentage of non-residents in Ontario.



PROF.TAYLOR: The American branch plants of course are very largely concentrated in Ontario.

Table 8 is a long table and has six sheets to it. If we take the first sheet only it is a complete description of the provincial and local tax system. The first column is a legal citation, the title of the tax, whether the payment is an annual payment or single payment, the third column is the basis of the tax, the measure of the tax, the rate of the tax, the administration, as to what department assesses, what department levies and which department collects or which officer collects the tax. And then the disposition of the tax to the province or the local municipalities. And then certain dates with regard to return.

THE CHAIRMAN: It is a most convenient statement to have.

PROF.TAYLOR: Perhaps I might say, sir, that in the column where there is a statement at the top and nothing below it, that means that it is assumed to be continued right down. For example, on page 8 the comptroller of provincial revenue does all the assessing and the provincial treasurer all the collecting. It includes also the municipal taxes and includes, I think, all licences, fees and that sort of thing, from dog taxes to lightning rods.

THE CHAIRMAN: That is very complete.

PROF.TAYLOR: Then, table 9 and the next few tables deal with the actual receipts from the principal taxes. Table 9 is a statement of the corporation tax. The act provides for different rates and bases of tax on different types and kinds of corporations and the receipts under each head are itemized for every year since the beginning. The tax was first introduced in 1899 and it is carried

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forward to a grand total on the right hand column. Table 10 is the mining tax, profit and acreage tax separately, and a third column showing the gold tax which is included in the first column but it is set out there separately to give the part that gold plays.

THE CHAIRMAN: That is the provincial mining tax?

PROF.TAYLOR: Yes, these taxes are entirely provincial, sir.

THE CHAIRMAN: What is the acreage tax?

PROF.TAYLOR: The answer is on page 12, sir, as to acreage tax:

"In 1907 an Act was passed which authorized a tax of two cents per acre on mining locations and mining claims in unorganized districts, farming land and a parcel of land less than 10 acres being exempt.

Under the terms of the 1937 Act a tax of 5 cents per acre is imposed."

THE CHAIRMAN: Thank you.

PROF.TAYLOR: Then table 11 has two, eleven and twelve are on the same page. The small block at the top is the personal income tax. In the first year you will recall the government paid back to the municipalities part of the tax, an amount based, I think, on the previous collections. And on the same page is table No.12, succession duties.

Table 13 is the gasoline tax receipts from the beginning, and placed beside that is a statement of the net gallonage of the gasoline sold.

THE CHAIRMAN: Apart from the exceptional income of the last two or three years on succession duties, the gasoline tax brings the largest income?

PROF.TAYLOR: Yes. Table 14 is the revenue from motor





vehicle licences.

That concludes the taxes. The next few tables, sir, deal with current expenditures. We have already been over yesterday 15, 16 and 17 which deal with education. We have also dealt with 18, 19, 20 and 21 which are the hospitals, sanatoria.

Table 22 is the statement of Mothers' Allowances. I think we already discussed that.

THE CHAIRMAN: Yes, we had that yesterday.

PROF. TAYLOR: Table 23 is just a statement of the percentages of persons over 65 years of age in the last six censuses. That 6.8, sir, will be 10.5 by another thirty years.

Table 24 is the Old Age Pensions. We had that before us yesterday, I think.

THE CHAIRMAN: Dominion-Provincial and Municipal expenditures on old age pensions. Yes, we had that yesterday, thank you.

PROF. TAYLOR: 25 is the cost of direct relief in Ontario by years, and 26 breaks it up by months with a good deal more detail. I think we also looked at those yesterday.

THE CHAIRMAN: Yes, Mr. Cross gave us that yesterday.

PROF. TAYLOR: Then we have six tables, 27 to 32 that deal entirely with highways. The first one, No. 27 is a summary of total expenditures on highways, King's Highways, county roads, township roads, northern development and colonization. And then the following five tables take each of those up separately. And that leaves only the last two which we had up this morning of the municipal statistics. Table 33, population, assessment, taxation and tax arrears.



And table 34 shows the debenture debt.

THE CHAIRMAN: Thank you. It is a most valuable compilation and will be very helpful to us.

Now, as we have got through all except the introductory part, Mr. St. Laurent, have you some questions to ask on this financial part?

MR. ST. LAURENT: There are just three or four questions, Mr. Chairman.

THE CHAIRMAN: I think it would be convenient to ask them now.

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BY MR. ST. LAURENT. of Mr. Walters:

Q. Mr. Walters, at page 34 of the second book, there is the statement made that, "The government of Ontario is convinced that there is a serious housing problem", which has made itself felt in the country during the last seven or eight years, that is the view of the Ontario government is it not? A. That is the view.

Q. And that relief from that housing problem will probably involve the necessity of reducing the burden on real estate taxation? A. That is correct.

Q. There is also a statement made that the Ontario government has attempted to do what the circumstances made possible in that direction, by many other methods, one of which was the relief of the municipalities of their share of the maintenance of provincial highways?

A. That is correct.

Q. Is it not a fact that this relief from the municipality's share in the provincial highways has benefited principally the rural municipalities? A. I believe that is correct.

Q. Is it not also a fact that the highway problem is much more acute in the urban municipalities than it is in the rural municipalities? A. I think that is correct.

Q. There is very little, if any, portion of the provincial highway system which has been taken over by the provincial government which happens to be in the urban centres? A. That is correct, if you are speaking of urban centres as cities.

Q. Cities and towns?

HON. MR. CROSS: Many towns are in the county system and get relief through the county. In Ontario the towns get relief from the county rate and there are over seventy separate towns.

MR. ST. LAURENT: Just to have the figures on the record at this point, how many cities are there?





HON. MR. CROSS: There are twenty-seven.

MR. ST. LAURENT: Approximately what proportion of Ontario's population would be in those twenty-seven cities?

MR. WALTERS: We have that figure here, I believe.

HON. MR. CROSS: You may find the population in that exhibit which I filed this morning, the annual report of municipal statistics, on page ten. It gives a breakdown of the population in the various towns, villages and townships of the province. That breakdown of statistics is from the annual report of the municipalities to the Department: It is not based on the federal Bureau of Statistic's figures.

MR. ST. LAURENT: But it is based on figures which are looked upon as reliable?

HON. MR. CROSS: Yes, the figures are reliable.

MR. ST. LAURENT: And those figures show that practically half of the population is in the cities, about 1,566,000?

HON. MR. CROSS: Yes, that is correct.

MR. ST. LAURENT: And that is the area where the housing problem is becoming most acute?

MR. WALTERS: Generally speaking, yes.

MR. ST. LAURENT: So far, the circumstances have not made it possible for the central government to take over any part of the burden resting on the city municipalities with respect to their streets and highways?

MR. WALTERS: By the central government, do you mean the provincial government?

MR. ST. LAURENT: Yes, the provincial government.

MR. WALTERS: This government has begun this by assuming a proportion of the county's share and has given relief to the municipalities as indicated. Except for certain towns this has benefited the towns and villages and that is as far as this government has gone, practically speaking. The Minister of Highways is here and can make



a statement.

MR. ST. LAURENT: It was only with this in mind, several presentations have been made to the Commission that large revenues were secured out of motor vehicle taxes and gasoline taxes, and that a substantial portion of this revenue came from the city. This definitely imposed a burden upon the city municipalities and the cities received no share of the tax.

HON. MR. McQUESTEN: Of course, you are not losing sight of the fact that the whole of the province is brought to the door of these cities for the purpose of trading. Those highways are kept up solely by the province.

MR. ST. LAURENT: I am not expressing any opinion as to whether it is proper or not, but in Ontario the situation is the same, apparently, as it is in the other provinces. So far the city municipalities have not had any direct participation in the revenue raised from motor traffic?

HON. MR. McQUESTEN: That is perfectly true, but you might moderate it to this extent: in the municipalities such as those surrounding the city of Toronto, there are probably large numbers of people, living, working and having their being within the city of Toronto. Of course they get the benefit of our contribution, that is the small municipalities clustered around the larger centre.

MR. LANG: May Mr. McQuesten be permitted to make a statement, if Mr. St. Laurent does not mind. As I understand it, there was a statement made by the Mayor of the city of Toronto that the city had to pay large sums in connection with roads outside the city of Toronto. This statement should be clarified to some extent.

MR. WALTERS: The Minister of Highways could explain that statement.

HON. MR. McQUESTEN: The suburban roads commission,





in the case of this county proceeded--my understanding is, though I have not seen the agreement--my understanding is that the city of Toronto originally made an agreement with the county of York practically establishing what later became the suburban roads commission. Under the Act which was subsequently passed, during the course of years, the county of York has succeeded in transferring or having the suburban area commission take up all the county roads in the county of York. This is the only county in Ontario to-day which has not any county roads. The county roads are entirely transferred now to the suburban area commission which administers them entirely. The city of Toronto has asked this government on a number of occasions to take over the suburban area's roads, but, of course, that would mean that the county of York which is one of the wealthiest counties would have all its roads taken over under the guise of suburban area roads. It would not be reasonable to treat the county of York in this manner and give it the benefit of not being troubled with any roads and not do the same for the other counties. For this reason we have not been able to accede to that request. I have not the figures, but I <sup>do not</sup> think the actual contribution from the city of Toronto is very large. Then, I might say this in general respect to that question. At the outset, the city of Toronto was very ambitious to extend the provincial highways around Toronto. Originally, as you know, Mr. Chairman, the provincial highways were contributed to by the municipalities, they were not financed entirely by the provincial government until 1935. As I say, the city of Toronto during the years from 1920 to 1935 made a contribution on the basis of 20 per cent to these highways extending a very considerable distance out of Toronto. I think I am right in saying that these contributions were paid for out of debentures issued from





time to time, as payments were made, and were not paid for out of ordinary income. I think that is the only way in which this city differs slightly from the other cities in the province.

THE CHAIRMAN: I think one of Mayor Day's complaints was that roads could be added to the system without the consent of the city. While it originally started by an agreement with the commission--this commission consists of three members, one from the city, one from the county, and one appointed by the government of the province. Without the consent of the city, additional mileage can be added which increases the city's contribution.

MR. McQUESTEN: Yes, I know that is true, but the city of Toronto was the author of its own difficulty in that respect inasmuch as the city originally created this by the agreement.

MR. WALTERS: Mr. Chairman, to actually go into a computation to ascertain as to whether the city of Toronto and the other cities benefit to the extent they have and whether the city should be extended an allowance to improve its own streets or not, is about as big a question as the one which engaged your colleague, Commissioner Dafoe, this morning. The Sundays and holidays find the roads infested with motors which are nearly all Torontonians or Hamiltonians around this area. We are all aware of the fact that these great centres, due to improved highway conditions, have ruined the little corner stores in the little villages. Every one of these little corner stores went bankrupt because people got in their motor cars and flocked to these large centres. It often amuses me to see in the papers a stream of protests against the traffic which goes through a city on a Sunday. Then, a year later, you will see an item in the paper that the Department of Highways is con-



sidoring putting a by-pass around this town. It is then that the citizens view with alarm this proposed diversion of traffic. It is like Professor Taylor's illustration concerning the economists differing in the cost of a suit of clothes.

HON. MR. McQUESTEN: I might say that where we are deliberately avoiding these centres of population as Mr. Walters has said, we have a very effective answer when the citizens come to us to protest.

MR. LANK: With Mr. St. Laurent's permission, may I clear up another point? This point arises out of a submission made by the city of Toronto. On page 11 of the statement for the city of Toronto, reference is made to the extent of the expenditure of the Department of Highways up to March 31, 1937. I want to point out to the Commission that in considering that reference, it should be considered along with our exhibit number 304. Our statement gives all the facts, whereas the statement of the city of Toronto does not give you any government expenditure for the charges of the highway debt, so the figure as given in the Toronto statement is away below the actual highway expenditure.

HON. MR. McQUESTEN: I think I should also add, if the Commission will permit me, that the approaches to the large centres are extremely expensive. The expense of these is borne now, and has been since 1935, by the Highway Department. The mileages are not proportionate in cost at all, to what they are going through the country. Moreover, the highway department has, in the last two years started a policy of separating traffic wherever possible at the entrance to a city. There is one now at the west end of Toronto. The traffic which goes out by way of the Kingston road has been separated, that is at the east





end, I should have said. At the west end, work has been started on a similar provision. A little further out, at the Cooksville crossing, the department also has a clover leaf. These are much more expensive, not only due to the type of construction, but in the cost of the land which is quite high at the entrance to a city. This is one item which people fail to credit to the department as against the offsets which people claim.

MR. ST. LAURENT: There is one more point which I would like to clear up. It appears on page 54 and 55. On page 54 there is the statement:

"The Dominion government by its corporation tax on the profits of mining and lumbering has levied a tax upon that which belongs to the province, and, therefore, disregards the intention of Confederation that the natural resources should be the particular property of the provinces and that any benefit that should be derived therefrom should flow to the province. "

Then, in developing that, I notice that the only development is with respect to the profit derived from mines. Is the implication that, in fact, there is no lumbering worth while in Ontario or that there is no profit worth while, or what?

MR. WALTERS: The great objection, Mr. St. Laurent, is this, as explained by the Minister of Mines; when timber is taken from the land, more timber can be grown. It is possible to re-stock the waters when they become depleted, but when ore is taken from the mine, the earth is impoverished.

MR. ST. LAURENT: Then your serious objection rises with respect to the tax on natural resources, only with





respect to the tax on a mine?

MR. WALTERS: Yes, on a mine.

MR. ST. LAURENT: And the same principle is not applicable to lumbering?

MR. WALTERS: It is not considered so obnoxious.

MR. ST. LAURENT: There seems to be a distinction made between the profit derived from the mining of the ore and that derived from the treating of the ore. Just how is it suggested such a deduction could be arrived at?

MR. WALTERS: I do not think it would be difficult; it is merely a matter of accounting. A corporation or mining firm which is carrying on operations, often by means of subsidiary companies, already has this breakdown.

MR. ST. LAURENT: The part which is claimed to be a natural resource, would it be just the value of the ore?

MR. WALTERS: The value of the ore when it is brought to the surface ready for the delivery to the refinery or shipment.

MR. ST. LAURENT: And not the profit involved in bringing it from its position in the earth to the surface?

MR. LANG: The phrase used in mining is "at the pit's mouth".

MR. ST. LAURENT: The suggestion here is that if there is a profit in bringing it from its natural position in the earth to the pit's mouth, it should be regarded as a part of the profit to be taxed for provincial purposes?

MR. WALTERS: Undoubtedly, there is a profit.

MR. ST. LAURENT: In some mines.

MR. WALTERS: Well, we will not go into that.

MR. ST. LAURENT: With respect to this suggestion for an allowance for obsolescence or replacement of plant, which is on page 63, is it suggested that that would apply



only in a general way or only in such cases where there had actually been replacements.

MR. WALTERS: It varies with the different types of industry. An industry which is being developed rapidly, such as the motor industry, it would apply to a greater degree than it would say, in clothing, in paper making, or in textiles.

MR. ST. LAURENT: I appreciate that, but is it the suggestion that it should be allowed in a general way from year to year, or that there should be an allowance made if, in fact, the operator chooses to replace an obsolete item of machinery by something more efficient?

MR. WALTERS: The suggestion is that the allowance should only be made when the loss from obsolescence is ascertained.

MR. ST. LAURENT: By actual replacement?

MR. WALTERS: By actual replacement, which might entail it having to be written off over more than one fiscal year.

MR. ST. LAURENT: It might have to be projected into the future for more than one accounting year?

MR. WALTERS: Yes, because you are not always aware when obsolescence is going to take place. You cannot do it from year to year, for that reason. Take, for example, such an operation as the knitting of silk stockings. I believe, in this country, for the most part, the stocking is knit down as far as the foot and then it is necessary to remove it to a new set of needles and do the foot. I am told that in some countries it is done in one complete operation. I am told that in Czechoslovakia a machine has been perfected which will knit a stocking in one complete operation. It is impossible to foresee such



inventions.

MR. ST. LAURENT: So it would not involve an increase in the reserves made for depreciation?

MR. WALTERS: I think not, sir.

MR. ST. LAURENT: It is something which would be allowed when replacement actually occurred and they would have to be projected into the future?

MR. WALTERS: Yes, when the method of settlement had been arrived at.

MR. ST. LAURENT: Now, with respect to the Premier's statement on page five in book one:

"Beyond doubt there is gross prodigality--woeful waste--in public administration; but we may have economy under the present political framework, there is overlapping of functions between the central and provincial bodies; but we may correct it without destroying the balance set up for the insurance set up for self-government. In short I am about to contend that by rearranging the public services, we may eliminate waste, increase efficiency, and, at the same time, bring government closer to the people---"

My only question is, was it intended to bring to the attention of the Commission <sup>any</sup> other example of prodigality and woeful waste than that to which reference has already been made in book two?

MR. WALTERS: You have submitted that question in writing?

MR. ST. LAURENT: Then, I will withdraw it in an orderly manner.

THE CHAIRMAN: Then, Mr. Attorney-General, would you prefer to commence to-morrow morning?





HON. MR. CONANT: I understand that some further departmental data has been furnished to the Commission and upon which the Commission may wish some further elaboration. Following that, I would be glad to expound this material which is part of book two. Perhaps there are some parts upon which the Commission will desire no elaboration. I do not know whether the Commission has indicated, as yet, whether it desires any further information regarding these various departmental submissions.

THE CHAIRMAN: I understand certain of the deputy ministers are going to give information on questions of overlapping of service to-morrow morning. I understand from Mr. Lang that this is the plan.

HON. MR. CONANT: Then, I will be glad to follow that, if I might. I prefer not to start this afternoon.

MR. LANG: I thought I might explain just a little more at what stage we are on that point. The matter referred to by the Attorney-General arises out of a letter which you wrote the premier suggesting that your commission might wish to get information concerning services which might be regarded, as to some extent, overlapping or duplicating.

In pursuance of that request, I had prepared by several departments a short statement as to the machinery of the various departmental operations, with a comment as to overlapping or otherwise. I have furnished Mr. Fowler with copies of these statements now and it occurs to me, as the Attorney-General has suggested, there might be some of these which do not indicate any point of overlapping at all. It may be that you will feel some of the material before you is sufficient and you will not desire any verbal explanation. Subject to that, we are prepared and very glad to have the deputy



ministers of these departments present. It has been suggested to-morrow morning might be a suitable time for the verbal explanation of any point which might need explaining. I know there is no point in going over the departments to which reference has been made in these memoranda at the present moment except that I think it would aid us if, by to-morrow morning, it could be intimated before the Commission sits if any of these departmental heads are not required because it means bringing them here, of course.

THE CHAIRMAN: Thank you very much, Mr. Lang. You have given Mr. Fowler copies of that, have you?

MR. LANG: Yes, Mr. Chairman, I have.

THE CHAIRMAN: Then, those will be looked over and we will let you know in the morning before we start whether there are any of those statements upon which we desire no explanation. Now, we will adjourn until to-morrow at 10.30.

(The Commission adjourned at 4.15 p.m.,  
Thursday, May 5, 1938.)













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